



## Testimony

Before the Committee on Oversight and  
Accountability, House of  
Representatives

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# EMERGENCY RELIEF FUNDS

## Significant Improvements Are Needed to Address Fraud and Improper Payments

Statement of Statement of Gene L. Dodaro,  
Comptroller General of the United States

# GAO Highlights

Highlights of [GAO-23-106556](#), a testimony before the Committee on Oversight and Accountability, House of Representatives

## Why GAO Did This Study

During emergencies, federal agencies must distribute relief funds quickly while ensuring appropriate safeguards are in place. GAO noted early in the COVID-19 pandemic that given the urgency of public health needs and economic disruptions, agencies gave priority to swiftly distributing funds and implementing new programs. However, tradeoffs were made that limited progress in achieving accountability goals.

As of November 30, 2022, the government had obligated \$4.4 trillion and expended \$4.1 trillion, or 97 percent and 89 percent, respectively, of the \$4.6 trillion from six COVID-19 relief laws.

Three programs—SBA's PPP and COVID-19 EIDL program, and DOL's UI program—account for a large portion of COVID-19 relief funding. Based on GAO's findings and other audits, GAO added SBA's emergency loans for small businesses issued under PPP and COVID-19 EIDL, and the UI system to its High-Risk List in March 2021 and June 2022, respectively.

This testimony summarizes (1) fraud, improper payments, and accountability deficiencies in COVID-19 relief programs; (2) shortcomings in agencies' fraud risk management practices and internal controls; and (3) the status of recommended actions to improve these practices in the future.

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

View [GAO-23-106556](#). For more information, contact Rebecca Shea at (202) 512-6722 or [shear@gao.gov](mailto:shear@gao.gov).

February 1, 2023

## EMERGENCY RELIEF FUNDS

### Significant Improvements Are Needed to Address Fraud and Improper Payments

#### What GAO Found

While fraud and accountability issues will continue to occur in COVID-19 relief programs, there is already ample evidence of widespread fraud, improper payments, and accountability deficiencies during the pandemic. For example, GAO found that from March 2020 through January 13, 2023, at least 1,044 individuals pleaded guilty to or were convicted at trial of federal charges of defrauding COVID-19 relief programs. This includes the Small Business Administration's (SBA) Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program, the Department of Labor's (DOL) Unemployment Insurance (UI) programs, and economic impact payments issued by the Department of the Treasury and the Internal Revenue Service.

Also, federal charges were pending against at least 609 individuals or entities for attempting to defraud COVID-19 relief programs. The number of individuals facing fraud-related charges has continued to grow since March 2020 and will likely increase, as these cases take time to develop.

- **SBA Office of Inspector General (OIG).** According to SBA OIG officials, as of January 25, 2023, the SBA OIG has 536 ongoing investigations involving PPP, the COVID-19 EIDL program, or both.
- **DOL OIG.** From April 1, 2020 through January 10, 2023, the DOL OIG opened over 198,000 complaints and investigations involving UI. It continues to open at least 100 new UI fraud matters each week.

The extent of fraud associated with PPP, COVID-19 EIDL, UI, and other COVID-19 relief programs has not yet been fully determined. Nevertheless, in December 2022, GAO found that measures and estimates indicate substantial levels of fraud and potential fraud in UI during the pandemic. Specifically, GAO reported that if the lower bound of DOL's 2021 estimated national fraud rate for the regular UI program was extrapolated to total spending across all UI programs during the pandemic, it would suggest over \$60 billion in fraudulent UI payments. However, such an extrapolation has inherent limitations and should be interpreted with caution.

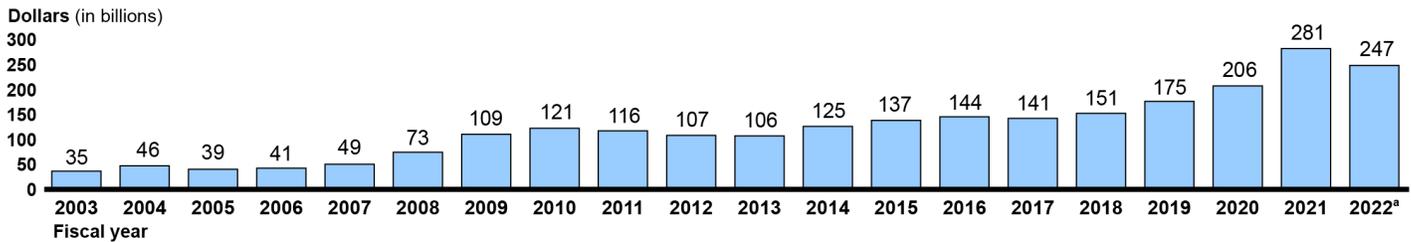
One of the many challenges in determining the full extent of fraud is its deceptive nature. Programs can incur financial losses related to fraud that are never identified and such losses are difficult to reliably estimate. In ongoing work, GAO is seeking to calculate a comprehensive estimate of UI fraud and is exploring ways to estimate the amount of fraud more broadly across the federal government.

The amount of funds the government will ultimately be able to recover from fraud losses is yet to be determined as well. Various reporting from the OIGs provides insight into completed investigations and recoupment efforts. For example, SBA's OIG reported that its collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than \$1 billion stolen by fraudsters from the COVID-19 EIDL program. DOL OIG investigations and investigative assistance to state workforce agencies have resulted in UI fraud monetary results, including forfeitures and restitution amounts, in excess of \$905 million.

## Highlights of GAO-23-106556 (Continued)

In addition to noted vulnerabilities to fraud, COVID-19 relief funding exacerbated an already growing improper payments problem in the federal government.

### Government-wide Improper Payment Estimates for Fiscal Years 2003–2022



Source: GAO. | GAO-23-106556

Note: Prior year improper payment estimates have not been adjusted for inflation.

<sup>a</sup>This does not include estimates related to certain significant expenditures to fund response and recovery efforts for the COVID-19 pandemic, such as the Department of Labor's (DOL) Pandemic Unemployment Assistance program in the Unemployment Insurance (UI) system.

GAO identified four major factors that contributed to federal programs' exposure to fraud, improper payments, and other accountability challenges when administering COVID-19 relief programs. Specifically, agencies:

- Did not strategically manage fraud risks and were not adequately prepared to prevent fraud
- Lacked appropriate controls to prevent, detect, and recover fraudulent and other improper payments
- Lack permanent, government-wide analytic capabilities to help agencies identify fraud
- Continue to have challenges with improper payments

GAO has made 374 recommendations and 19 matters for congressional consideration across its COVID-19 work. As of January 20, 2023, agencies had fully or partially addressed 147 of these 374 recommendations. Congress had fully addressed one matter and partially addressed another. The intent of these recommendations were for agencies to implement mid-course corrections where appropriate and to increase transparency and accountability of the COVID-19 response and for future emergencies. For example 22 recommendations and matters involved actions to address fraud risks, 11 were tied to specific improper payment issues, and 5 were related to both issues across multiple COVID-19 relief programs.

The matters for congressional consideration include the following 10 that GAO made in March 2022 to enhance the transparency and accountability of federal spending.

- **New program improper payment reporting.** (1) Designate all new federal programs distributing more than \$100 million in any one fiscal year as "susceptible to improper payments," and, thus, subject to more timely improper payment reporting requirements; and (2) require agencies to report improper payment information in their annual financial reports.
- **Fraud risk management reporting.** Reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports. Such reporting will increase congressional oversight to better ensure fraud prevention during normal operations and emergencies.
- **Fraud analytics.** Establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.
- **Internal control plans.** Require the Office of Management and Budget (OMB) to provide guidance for agencies to develop internal control plans in advance, that can then be put to immediate use for future emergency funding.
- **Data sharing.** Amend the Social Security Act to 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.
- **Chief Financial Officer (CFO) authorities.** Clarify that agency CFOs have oversight responsibility for internal controls over financial reporting and key financial information; and require agency CFOs to (1) certify the reliability and validity of improper payment risk assessments and estimates and monitor associated corrective action plans, and (2) approve improper payment estimate methodology in certain circumstances.
- **USAspending.gov.** (1) Clarify the responsibilities and authorities of OMB and Treasury for ensuring the quality of federal spending data available on USAspending.gov, and (2) extend the previous requirement for agency inspectors general to review agency data submissions on a periodic basis.

Collectively, these actions can help agencies distribute funds rapidly while maintaining appropriate safeguards. In addition, these actions will help increase transparency and accountability and strengthen agency efforts to provide proper stewardship of federal funds.

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Chairman Comer, Ranking Member Raskin, and Members of the Committee:

I appreciate the opportunity to discuss fraud and improper payments in COVID-19 pandemic relief programs. Since March 2020, Congress and the Administration have provided trillions 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 state, local, tribal, and territorial governments; businesses; and individuals to combat the effects of the pandemic on the public health system as well as 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 improperly, including funds going to those who sought to defraud the government.<sup>1</sup>

Six COVID-19 relief laws provided about \$4.6 trillion for pandemic response and recovery.<sup>2</sup> As of November 30, 2022, the federal government had obligated a total of \$4.4 trillion and expended \$4.1 trillion, 97 and 89 percent, respectively, of these relief funds, as reported

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<sup>1</sup>The Payment Integrity Information Act of 2019 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. 31 U.S.C. § 3351(4). As such, improper payments refer to all kinds of erroneous payments, including but not limited to those resulting from fraud. Fraud involves obtaining something of value through willful misrepresentation. All payments made as a result of fraudulent activities are considered to be improper payments. Improper payments could suggest that a program may be vulnerable to fraud. However, improper payments amounts are not a valid indicator of the extent of fraud in a particular program.

<sup>2</sup>For the purposes of this testimony, the COVID-19 relief laws consist of the six laws providing comprehensive relief across federal agencies and programs that Treasury uses to report COVID-19 spending. These six laws are the American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, 135 Stat. 4; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020); and the Coronavirus Preparedness and Response Supplemental Appropriations Act 2020, Pub. L. No. 116-123, 134 Stat. 146. Total budgetary resources as of November 30, 2022, reported to the Department of the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System, reflect appropriations, as well as transfers, adjustments, recoveries, rescissions, and returns of unused indefinite appropriations. Therefore, amounts can fluctuate month to month. Federal agencies use the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to report proprietary financial and budgetary execution information to Treasury.

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by federal agencies to the Department of the Treasury (Treasury).<sup>3</sup> For additional details on COVID-19 relief funding and spending, see appendix I.

The CARES Act includes a provision for us to report regularly on the public health and economic impacts of the pandemic and the federal response.<sup>4</sup> We have issued 10 government-wide reports since the pandemic began and plan to issue our eleventh report this summer. In addition, we have issued at least 200 standalone reports, testimonies, and science and technology spotlights focused on different aspects of the pandemic.<sup>5</sup>

Across this body of work, we have made 374 recommendations to 26 federal agencies and raised 19 matters for congressional consideration. As of January 20, 2023, agencies had fully addressed 105 of these 374 recommendations and partially addressed 42. Congress had fully addressed one matter and partially addressed another. The intent of these recommendations and matters were for agencies to implement mid-course corrections where appropriate and to increase transparency and accountability of the federal COVID-19 response and for future emergencies. For example, 22 recommendations and matters involved specific actions to address fraud risks, 11 were related to specific improper payment issues, and five were related to both issues across multiple COVID-19 relief programs.

My comments today summarize key findings from our body of work related to fraud and improper payments during the COVID-19 pandemic. Specifically, I will discuss the following:

1. Fraud, improper payments, and accountability deficiencies in COVID-19 relief programs;

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<sup>3</sup>Amounts presented from Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System are the most recent available at the time of our analysis. An obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received, or a legal duty on the part of the U.S. government that could mature into a legal liability by virtue of actions on the part of another party that are beyond the control of the U.S. government. An expenditure is the actual spending of money, or an outlay. Expenditures include some estimates, such as estimated subsidy costs for direct loans and loan guarantees. Increased spending in Medicaid and Medicare is not accounted for in the funding provided by the COVID-19 relief laws.

<sup>4</sup>Pub. L. No. 116-136, § 19010, 134 Stat. at 579–81.

<sup>5</sup>For a complete list of our recurring CARES Act oversight reports and other COVID-19 reports, see <https://www.gao.gov/coronavirus>.

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2. Shortcomings in the federal agencies' fraud risk management practices and internal controls for COVID-19 relief programs; and
  3. The status of recommended actions to increase the transparency and accountability of federal spending during emergency and nonemergency periods.

Given the government-wide scope of this work, we undertook a variety of methodologies. These methodologies include examining federal laws; agency documents, guidance, processes, and procedures; and available agency budgetary data and other financial and management information. In addition, we interviewed federal and state officials. We also reviewed findings from our prior work on internal controls and fraud risk management practices in COVID-19 relief programs. 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.

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## Fraud, Improper Payments, and Accountability Deficiencies in COVID-19 Relief Programs

While the extent of fraud and accountability issues will continue to unfold in COVID-19 relief programs, there is already ample evidence of widespread fraud, improper payments, and accountability deficiencies. For example:

**Unemployment Insurance.** In a report released in January 2023, we found that measures and estimates indicate substantial levels of fraud and potential fraud in UI programs—a federal-state partnership overseen by the Department of Labor (DOL)—during the pandemic.<sup>6</sup> We found that based on formal determinations of fraud by states and territories, UI fraud during the pandemic is at

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<sup>6</sup>GAO, *Unemployment Insurance: Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy*, [GAO-23-105523](#) (Washington, D.C.: Dec. 22, 2022). UI programs include those that were established prior to the COVID-19 pandemic (including the regular UI program and Extended Benefits) and programs established in response to the COVID-19 pandemic (such as Pandemic Unemployment Assistance and Federal Pandemic Unemployment Compensation, among others). We refer to measures as counts of detected activities and to estimates as projections or inferences based on measures, assumptions, or analytical techniques.

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least \$4.3 billion. However, this does not account for potential fraud that has not been formally determined as such.

We also reported that if the lower bound of DOL's estimated national fraud rate for the regular UI program for 2021 was extrapolated to total spending across all UI programs during the pandemic, it would suggest over \$60 billion in fraudulent UI payments. However, such an extrapolation has inherent limitations and should be interpreted with caution. Current evidence supports this number as a conservative estimate of fraud because it is derived from the regular UI program estimated fraud rate, whereas, the fraud rate for pandemic UI programs is likely higher. In ongoing work, we are seeking to calculate a comprehensive estimate of UI fraud and are exploring ways to estimate the amount of fraud more broadly across the federal government.

According to DOL Office of Inspector General (OIG) officials, from April 1, 2020 through January 10, 2023, DOL OIG opened over 198,000 investigative matters involving UI.<sup>7</sup> The DOL OIG continues to open about 100 to 300 new UI fraud-related matters each week. From April 1, 2020 through January 10, 2023, DOL OIG UI fraud investigations resulted in over 1,239 indictments or initial charges, and 589 convictions according to DOL OIG officials. Also, according to DOL OIG officials, their investigations and investigative assistance to state workforce agencies have led to UI fraud monetary results in excess of \$905 million.<sup>8</sup>

**Paycheck Protection Program and COVID-19 Economic Injury Disaster Loan program.** According to Small Business Administration (SBA) OIG officials, as of January 25, 2023, the SBA OIG has 536 ongoing investigations involving the Paycheck Protection Program (PPP), COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program, or both. Also, according to a

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<sup>7</sup>The DOL OIG categorizes all investigative matters as either a complaint or an investigation. Complaints include those received through the DOL OIG's hotline or the Department of Justice's National Center for Disaster Fraud. Complaints require further review before determining if the DOL OIG will open an investigation. An investigation is something that, if proven, the DOL OIG anticipates will result in some type of criminal, civil, or administrative outcome.

<sup>8</sup>According to the DOL OIG, these include, but are not limited to, funds seized through forfeiture from bank accounts used to receive illicit proceeds of UI fraud, funds administratively returned to state workforce agencies by financial institutions based on the DOL OIG's work, and court-ordered restitution amounts.

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September 2022 SBA OIG report, it has ongoing investigations into international organized crime operations that applied for and obtained pandemic relief funds.<sup>9</sup> The SBA OIG's fraud investigations as of January 25, 2023 have resulted in 776 indictments and 426 convictions. Further, according to SBA OIG officials, \$378,010,194 in restitution has been ordered.

Additionally, SBA's OIG reported that its collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than \$1 billion stolen by fraudsters from the COVID-19 EIDL program.<sup>10</sup> The OIG also played a key role in assisting financial institutions in the return of another \$8 billion to SBA's COVID-19 EIDL program. In addition, SBA has also received over \$20 billion in COVID-19 EIDL funds returned by borrowers. However, according to SBA OIG officials, not all of these returns are related to fraud.

The extent of fraud associated with these and other COVID-19 relief programs has not yet been determined. One of the many challenges in determining the full extent of fraud is its deceptive nature. Programs can incur financial losses related to fraud that are never identified and such losses are difficult to reliably estimate.<sup>11</sup>

One measure of identified fraud is the count of adjudicated cases. For example, many individuals have already pleaded guilty to federal charges of defrauding COVID-19 relief programs. Based on our analysis of Department of Justice (DOJ) public statements and court documentation, we found that from March 2020 through January 13, 2023, at least 1,006 individuals or entities pleaded guilty to and 38 individuals or entities were

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<sup>9</sup>SBA OIG, *COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses*, Report No. 22-17 (Washington, D.C.: Sept. 12, 2022).

<sup>10</sup>Small Business Administration, Office of Inspector General, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2023*, Report No. 23-01 (Washington, D.C.: Oct. 14, 2022).

<sup>11</sup>The deceptive nature of fraud makes it difficult to measure in a reliable way. Various entities report data that provide insight into the extent of federal fraud, including fraud in COVID-19 relief programs. However, differing methodologies, incomplete data, and inconsistent reporting mean that these figures cannot be added to determine total fraud. In January 2023, we reported that determining the total extent of fraud is challenging because (1) there are varying definitions of fraud that impact reporting, (2) fraud is not easy to detect or prove, and (3) existing fraud data are insufficient. GAO, *GAO Overview: Fraud in the Federal Government—Challenges Determining the Extent of Federal Fraud*, [GAO-23-106110](#) (Washington, D.C.: Jan. 23, 2023).

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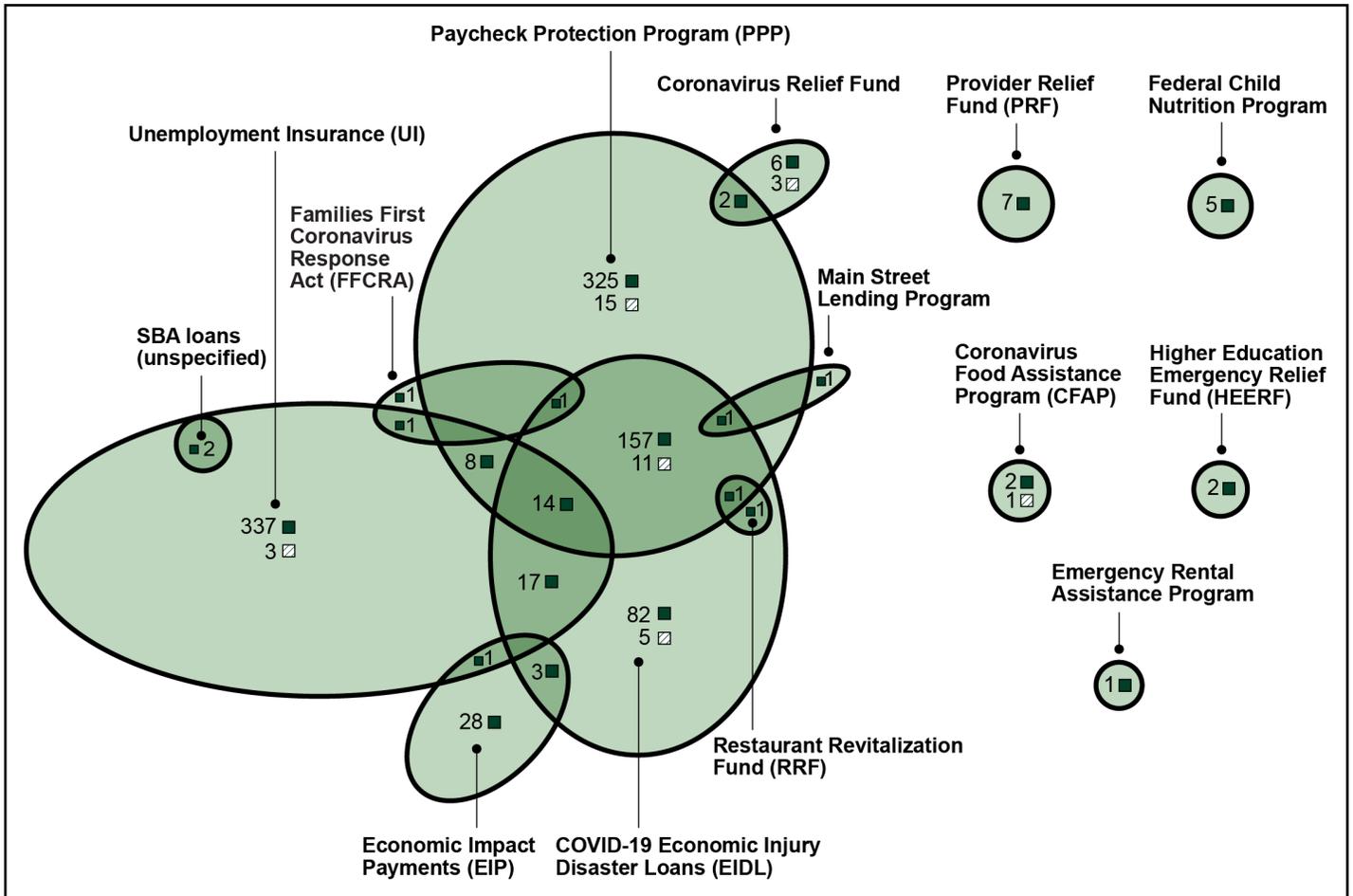
convicted at trial of federal charges of defrauding COVID-19 relief programs—including SBA’s PPP and COVID-19 EIDL program, DOL’s UI programs, and economic impact payments (EIP) issued by Treasury (including the Internal Revenue Service).<sup>12</sup>

Of the individuals or entities who pleaded guilty to or were convicted at trial, at least 779 had been sentenced as of January 13, 2023. 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. As shown in figure 1, while the majority of these 1,044 individuals or entities who pleaded guilty to or were convicted at trial for charges related to SBA and DOL programs, other COVID-19 relief programs were also defrauded.

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<sup>12</sup>This analysis is limited to the DOJ cases we identified from public sources, which may not include all criminal and civil cases charged by DOJ as of January 13, 2023.

**Figure 1: Number of Individuals or Entities That Have Pleaded Guilty to or Were Convicted at Trial of Federal Fraud-Related Charges, by COVID-19 Relief Program, as of Jan. 13, 2023**



**Number of individuals or entities**

- Guilty pleas (1,006)
- Convictions at trial (38)

Source: GAO analysis of Department of Justice case information. | GAO-23-106556

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## Fraud in Economic Impact Payments (EIP)

### 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-23-106556.

The number of individuals or entities facing fraud-related charges has grown since March 2020 and will likely continue to increase, as these cases take time to develop.<sup>13</sup> Based on our analysis of DOJ public statements and court documentation through January 13, 2023, federal charges were pending against at least 609 individuals or entities for attempting to defraud COVID-19 relief programs.

Additionally, federal hotlines have received numerous complaints from the public, many alleging potential fraud involving COVID-19 relief funds. For example, from March 13, 2020 through January 22, 2023, our hotline—known as FraudNet—received about 3,750 complaints related to the CARES Act, about half of which involve SBA's PPP and COVID-19 EIDL program, DOL's UI programs, and EIPs issued by Treasury and the Internal Revenue Service.<sup>14</sup> According to SBA OIG officials, from March 2020 through December 2022, the OIG had received 227,567 hotline complaints, many of which relate to PPP and the COVID-19 EIDL program. According to the DOL OIG, since the pandemic started, it has seen an increase of more than 1,000 times in the volume of its UI work involving complaints and investigations.

In addition to noted vulnerabilities to fraud, the COVID-19 relief funding exacerbated an already growing improper payments problem in the federal government. For example, DOL reported an increase in the estimated improper payment amounts from \$8.0 billion (a 9.2 percent estimated improper payment rate) for fiscal year 2020 to \$78.1 billion (an 18.9 percent estimated improper payment rate) for fiscal year 2021.<sup>15</sup> For fiscal year 2022, DOL reported estimated improper payments of \$18.9

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<sup>13</sup>The statute of limitations for mail fraud and wire fraud prosecutions is 5 years (18 U.S.C. § 3282), except for mail and wire fraud schemes that affect a financial institution, in which case the statute is 10 years (18 U.S.C. § 3293). Also, the statute of limitations for fraud related to PPP loans (15 U.S.C. § 636(a)(36)(W)) and PPP second draw loans (15 U.S.C. § 637(a)(37)(P)), and certain COVID-19 EIDL loans (15 U.S.C. § 636(b)(16)), COVID-19 EIDL advances (15 U.S.C. § 9009b(i)) and targeted COVID-19 EIDL advances (15 U.S.C. § 9009b(i)) has been extended to 10 years.

<sup>14</sup>The remainder of the complaints relate to a variety of other programs and issues, including other federal COVID-relief programs such as the Higher Education Emergency Relief Fund and the Emergency Rental Assistance Program.

<sup>15</sup>DOL did not separately report an estimate for the pandemic UI programs, but instead reported that the improper payment estimate for the Unemployment Insurance program of \$78 billion included the Federal Pandemic Unemployment Compensation and Pandemic Emergency Unemployment Compensation programs.

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billion (a 22.2 percent estimated improper payment rate). However, these estimates do not include Pandemic Unemployment Assistance (PUA).<sup>16</sup>

DOL's OIG applied the fiscal year 2021 DOL-reported improper payment rate of 18.71 percent to its estimate of \$872.5 billion in pandemic UI payments. The OIG assumed that the pandemic rate of improper payments would be this high in order to conclude that at least \$163 billion in pandemic UI benefits could have been paid improperly.<sup>17</sup> The OIG further speculated that a significant portion of these estimated improper payment amounts could be attributable to fraud. However, the OIG did not provide further clarification of what the fraud rate might be.

In fiscal year 2022, SBA reported estimated improper payments for PPP and the COVID-19 EIDL program totaling \$36.7 billion (estimated improper payment rates of 4.24 percent for PPP, 4.50 percent for COVID-19 EIDL loans, and 9.76 percent for COVID-19 EIDL advances). Fiscal year 2022 is the first year these programs reported improper payment data.

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<sup>16</sup>PUA authorized UI benefits for individuals not otherwise eligible for UI benefits, such as self-employed workers and independent contractors, who were unable or unavailable to work as a result of specified COVID-19 reasons. At the time of the program's expiration in September 2021, PUA generally authorized up to 79 weeks of benefits. Pub. L. No. 117-2, § 9011(a), (b), 135 Stat. 4, 118; Pub. L. No. 116-260, div. N, tit. II, § 201(a), (b), 134 Stat. 1182, 1950-1951 (2020); Pub. L. No. 116-136, § 2102, 134 Stat. 281, 313 (2020). The 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. Relying on program participants to self-report and self-certify information increases the risk of improper payments including those resulting from fraud. DOL has reported that a total of \$131.3 billion in PUA compensation was paid to claimants as of October 8, 2022. Department of Labor, Employment and Training Administration, "Families First Coronavirus Response Act and Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding to States," accessed Jan. 26, 2023: [https://oui.doleta.gov/unemploy/docs/cares\\_act\\_funding\\_state.html](https://oui.doleta.gov/unemploy/docs/cares_act_funding_state.html).

<sup>17</sup>The DOL OIG's 18.71 percent improper payment rate does not include unknown payments. When unknown improper payments are included, the total improper payment rate is 18.92 percent. Larry D. Turner, Inspector General, DOL, Office of Inspector General, testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, Number 19-22-003-03-315, Mar. 17, 2022. When an executive agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be included in the improper payment estimate. 31 U.S.C. §3352(c)(2).

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**Fraud in COVID-19 Economic Injury  
Disaster Loan Program (EIDL)  
Advances**

**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-23-106556.

In addition to these significant improper payment estimates for PPP, the COVID-19 EIDL program, and UI, neither SBA nor DOL received unmodified (“clean”) audit opinions on their financial statements for fiscal year 2021 or 2022.<sup>18</sup> Specifically, the auditors of SBA’s financial statements found issues with the agency’s consolidated financial statements for the last 3 years. For fiscal year 2020, the SBA’s consolidated financial statements received a disclaimer of opinion, meaning external auditors were unable to express an opinion due to insufficient evidence.<sup>19</sup> Additionally, for fiscal years 2021 and 2022, SBA received a disclaimer of opinion on one of its financial statements and the remainder were unaudited.<sup>20</sup>

As the basis for these years’ disclaimers, the auditors reported that SBA was unable to provide adequate evidence to support a significant number of transactions and account balances due to inadequate processes and controls related to its implementation of its programs authorized under the CARES Act and related legislation, including PPP. In addition, SBA received a disclaimer of an opinion in fiscal year 2022, in part, because the agency did not adequately design and implement controls to ensure that approved COVID-19 EIDL loans were provided to eligible borrowers and accurately recorded. The financial statement auditor found examples where SBA approved and disbursed COVID-19 EIDL loans to borrowers with fraudulent tax identification numbers; the auditor also identified other concerns about potential fraud. SBA’s auditor made 31 recommendations in its fiscal year 2022 auditor’s report to address control deficiencies related to these programs.

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<sup>18</sup>SBA also received a disclaimer of opinion for its fiscal year 2020 consolidated financial statements.

<sup>19</sup>See Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report for Fiscal Year 2020* (Washington D.C.: Dec. 18, 2020).

<sup>20</sup>See Small Business Administration, Office of Performance, Planning and the Chief Financial Officer, *Agency Financial Report for Fiscal Year 2021* (Washington D.C.: Nov. 15, 2021) and Small Business Administration, Office of Performance, Planning, and the Chief Financial Officer, *Agency Financial Report for Fiscal Year 2022* Washington, D.C.: Nov. 15, 2022).

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DOL received a modified opinion for its financial statements for fiscal years 2021 and 2022.<sup>21</sup> The modified opinion was made in part because the auditors were unable to obtain sufficient appropriate audit evidence about the completeness of the benefit overpayment receivable for COVID-19 related UI benefits. DOL's auditor made three recommendations in its fiscal year 2022 auditor's report to address the issues related to the modified opinion.

We have found a range of internal control shortcomings across a wide range of programs and made many recommendations that agencies are in the process of implementing. These shortcomings are discussed in detail later in this statement.

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. However 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, prevent fraud, and pursue justice. According to DOJ officials, instances of fraud can normalize additional fraudulent behavior, which increases cynicism among the public. The officials further emphasized that DOJ prosecutes fraud to restore faith in government by seeking justice, recovering stolen funds, and illustrating that the government holds bad actors accountable. As a result, according to DOJ officials, DOJ publishes most cases of pandemic relief fraud in press releases to deter others from committing fraud and to promote trust in government.

Furthermore, 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.

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<sup>21</sup>See Department of Labor, *Agency Financial Report Fiscal Year 2021* (Washington, D.C.: Nov. 19, 2021) and Department of Labor, *Agency Financial Report Fiscal Year 2022* (Washington, D.C.: Dec. 13, 2022).

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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.

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## Shortcomings in Management Practices and Internal Controls Led to Fraud and Improper Payments in COVID-19 Relief Programs

We identified four major factors that contributed to agencies' exposure to fraud, improper payments, and other accountability challenges when administering COVID-19 relief programs. Specifically, when the pandemic began, agencies (1) did not strategically manage fraud risks, (2) lacked appropriate internal controls to prevent, detect, and recover fraudulent and other improper payments, (3) lacked permanent, government-wide analytic capabilities to help identify fraud, and (4) continued to have challenges with improper payments.

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## Agencies Did Not Strategically Manage Fraud Risks

Federal agencies did not strategically manage fraud risks and were not adequately prepared to prevent fraud when the pandemic began. In July 2015, we issued *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework). This framework provides a comprehensive set of key components and leading practices to help agency managers combat fraud in a strategic, risk-based way.<sup>22</sup> The Fraud Reduction and Data Analytics Act of 2015 required the Office of Management and Budget (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.<sup>23</sup> The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines.<sup>24</sup> As depicted below in figure 2, the Fraud

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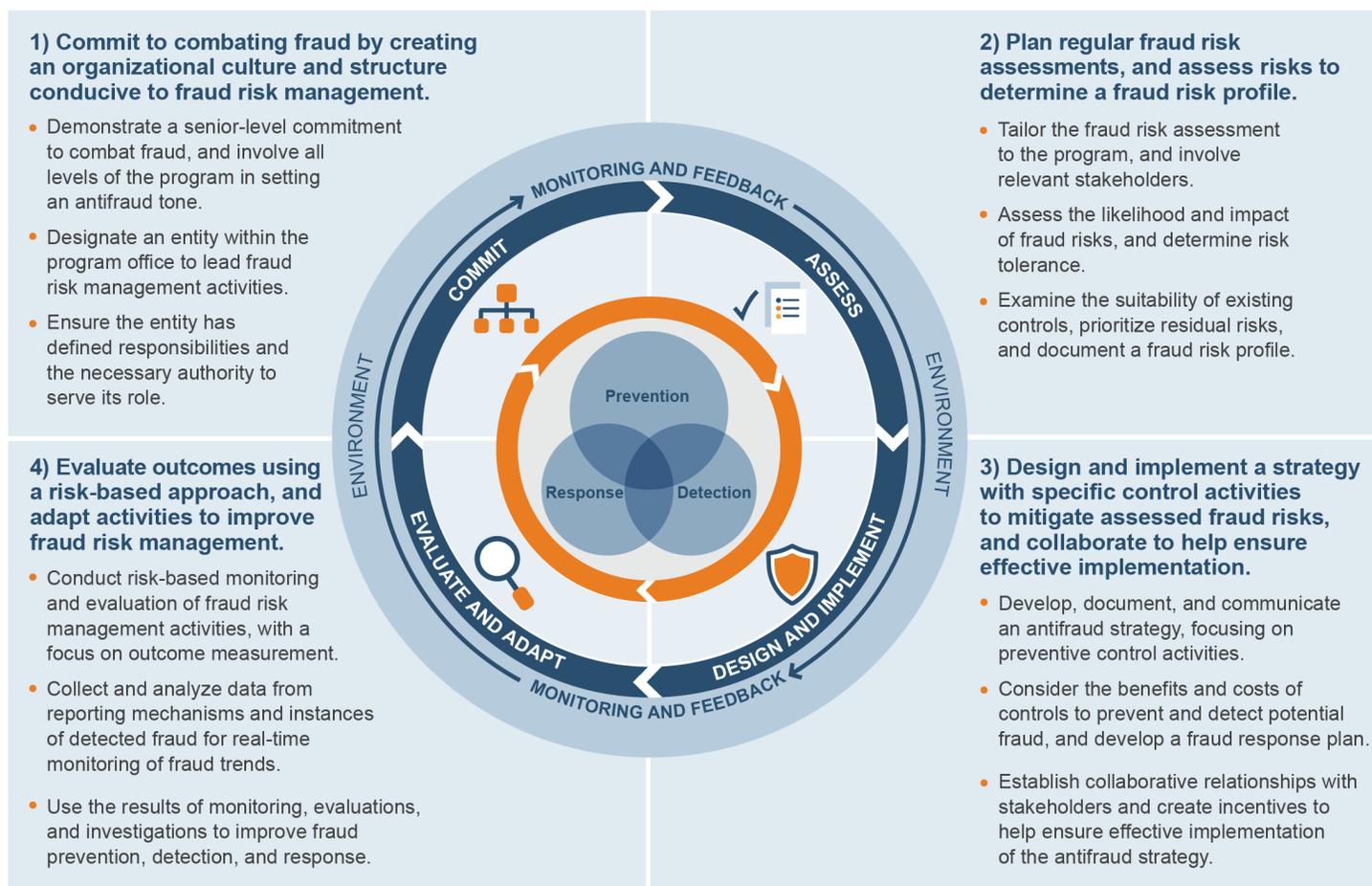
<sup>22</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: Jul. 28, 2015).

<sup>23</sup>Pub. L. No. 114-186, 130 Stat. 546 (2016).

<sup>24</sup>The Payment Integrity Information Act of 2019 requires these guidelines to remain in effect, subject to modification by OMB as necessary, and in consultation with GAO. Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357. 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 Information Integrity 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 Management 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).

Risk Framework describes leading practices for managing fraud risk and includes four components: commit, assess, design and implement, and evaluate and adapt.

**Figure 2: The Four Components of the Fraud Risk Framework and Selected Leading Practices**



Source: GAO. | GAO-23-106556

These leading practices are applicable during normal operations, as well as during emergencies. In June 2020, we reported that because the government needed to provide funds and other assistance quickly to those affected by COVID-19 and its economic effects, federal relief

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## Fraud in Unemployment Insurance (UI)

### Participants

A foreign official was sentenced to 5 years in prison and ordered to pay \$604,260 in restitution for his attempt to steal nearly \$2.4 million from the United States government, including approximately \$500,000 in pandemic-related unemployment benefits.

### Fraud scheme

Since 2017, the foreign official stole the personal identifying information (PII) of more than 20,000 Americans to submit more than \$2 million in claims for federally funded disaster relief benefits and fraudulent tax returns. The largest amount of fraud was committed against one state workforce agency, which paid out \$350,763 in fraudulent pandemic UI claims. He also submitted fraudulent pandemic UI claims in at least 17 other states.

### Impacts

The various state workforce agencies involved paid out almost \$500,000 in UI benefits. In addition, his actions affected thousands of Americans whose identities he had stolen, particularly those whose benefits he fraudulently obtained, given they were qualified for disaster aid and may have needed it urgently.

Source: GAO analysis of court documentation | GAO-23-106556.

programs were vulnerable to significant risk of fraudulent activities.<sup>25</sup> We recognize that eliminating all fraud and fraud risk is not a realistic goal. However, we expressed concern in March 2022 about the pace and extent to which agencies have implemented controls to prevent, detect, and respond to fraud in a manner consistent with leading practices since the Fraud Reduction and Data Analytics Act of 2015 was enacted in 2016.<sup>26</sup> 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.

Agency OIGs have also raised concerns about the ability of agencies to strategically manage fraud risks. For example, the SBA OIG identified managing fraud risks as a top management challenge for the agency, citing the susceptibility of pandemic relief programs to significant fraud risks and vulnerabilities as a particular concern. The DOL OIG has similarly reported significant concerns with the ability of DOL and state workforce agencies to deploy UI and other program benefits expeditiously and efficiently while ensuring integrity and adequate oversight, particularly in response to national emergencies and disasters.

Other entities have emphasized the heightened fraud risks associated with the COVID-19 relief programs. For example, at the beginning of March 2022, the White House noted that there has been an “expansion of foreign and domestic criminal syndicates defrauding” benefits programs intended to help Americans deal with the pandemic’s impacts.<sup>27</sup> Additionally, the Pandemic Response Accountability Committee (PRAC) has stated that the unprecedented amount of money made available for pandemic relief, and the quick distribution of most

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<sup>25</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

<sup>26</sup>GAO, *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).

<sup>27</sup>White House, *Fact Sheet: President Biden to Announce New Steps to Combat Criminal Fraud and Identity Theft in Pandemic Relief Programs* (Washington, D.C.: Mar. 1 2022), accessed Mar. 7, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/01/fact-sheet-president-biden-to-announce-new-steps-to-combat-criminal-fraud-and-identity-theft-in-pandemic-relief-programs/>.

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## 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-23-106556.

funds, put the money at a higher risk for fraud.<sup>28</sup> These known fraud risks underscore the importance of fraud risk management.

Across our COVID-19 work, we found that agencies did not consistently apply leading practices to manage fraud risks in COVID-19 spending, including designating dedicated antifraud entities, assessing fraud risks, or developing antifraud strategies. For example:

- **Paycheck Protection Program and COVID-19 Economic Injury Disaster Loans.** In our reviews of PPP and the COVID-19 EIDL program, we have made several recommendations to SBA to improve its fraud risk management efforts. As of January 2023, SBA has implemented many of these recommendations and is in the process of implementing others. However, SBA's initial approach to managing fraud risks in PPP and the COVID-19 EIDL program, as well as in its longstanding programs, had not been strategic. For example, SBA did not designate a dedicated antifraud entity until February 2022. This new entity—the Fraud Risk Management Board—is to oversee and coordinate SBA's fraud risk prevention, detection, and response activities.

Further, in March 2021, we found that SBA had not conducted fraud risk assessments for PPP and the COVID-19 EIDL program and recommended that it do so.<sup>29</sup> When SBA developed its fraud risk assessments for the programs in October 2021, PPP had already stopped accepting new applications and the COVID-19 EIDL program would stop at the end of that year. As we mentioned in prior work, fraud risk assessments are most helpful in developing preventive fraud controls to avoid costly and inefficient “pay-and-chase” activities. For example, while the PPP fraud risk assessment can help SBA identify potential fraud as it continues to review the PPP loans for forgiveness, it could not be used to identify potential fraud during the application process.

In March 2021, we also recommended that SBA develop a strategy that outlines specific actions to monitor and manage fraud risks in PPP and the COVID-19 EIDL program on a continuous basis. As of

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<sup>28</sup>The CARES Act established the PRAC within the Council of Inspectors General on Integrity and Efficiency, the oversight and coordination body for the inspector general community. Pub. L. No. 116-136, § 15010(b), 134 Stat. 281, 534 (2020). The PRAC is composed of 21 inspectors general.

<sup>29</sup>GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

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January 2023, we are continuing discussions with SBA on missing elements of the current strategy such as timelines and ongoing fraud detection.

- **Unemployment Insurance.** In October 2021, we found that DOL had not clearly assigned defined responsibilities to a dedicated antifraud entity or comprehensively assessed fraud risks for the UI programs, in alignment with leading practices.<sup>30</sup> We made six recommendations to improve DOL's ability to identify and assess fraud risks to the UI programs. For example, we recommended that DOL designate a dedicated antifraud entity with clearly defined and documented responsibilities and authority, including responsibility and authority for facilitating communication about fraud issues to stakeholders. At the time, DOL neither agreed nor disagreed with these recommendations.

In its response to our January 2023 report, DOL stated that it was proceeding with implementing these October 2021 recommendations. Specifically, the department is in the process of designating a dedicated entity and documenting responsibilities for managing the process of assessing fraud risk. The department is also working to develop a UI fraud risk profile in accordance with the Fraud Risk Framework.

In addition, we found in January 2023 that DOL had not designed and implemented an antifraud strategy to guide its actions based on a fraud risk profile in alignment with leading practices in the Fraud Risk Framework; we recommended that it do so.<sup>31</sup> DOL stated that it plans to develop a strategy.

- **Affordable Connectivity Program.** In January 2023, we found that the Federal Communications Commission (FCC) had not developed an antifraud strategy to address identified fraud risks associated with the Affordable Connectivity Program.<sup>32</sup> We also found FCC had not developed processes to conduct regular fraud risk assessments or

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<sup>30</sup>GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, [GAO-22-105051](#) (Washington, D.C.: Oct. 27, 2021).

<sup>31</sup>[GAO-23-105523](#).

<sup>32</sup>In December 2020, the Consolidated Appropriations Act, 2021 directed FCC to establish the Emergency Broadband Benefit Program to help low-income households afford Internet service during the COVID-19 pandemic. In November 2021, the Infrastructure Investment and Jobs Act made several changes to the program to transform it from a temporary, emergency program to a longer-term program known as the Affordable Connectivity Program. GAO, *Affordable Broadband: FCC Could Improve Performance Goals and Measures, Consumer Outreach, and Fraud Risk Management*, [GAO-23-105399](#) (Washington, D.C.: Jan. 18, 2023).

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monitor certain antifraud controls. We made six recommendations to improve FCC's processes for managing fraud risks, including that FCC develop and implement (1) a process for conducting regular fraud risk assessments, (2) an antifraud strategy that aligns with leading practices in the Fraud Risk Framework, and (3) processes to monitor specific antifraud controls. FCC agreed with our recommendations and described its plans to address them.

**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-23-106556.

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.<sup>33</sup> In March 2022, we suggested that Congress amend the Payment Integrity Information Act of 2019 to reinstate reporting requirements.<sup>34</sup>

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**Agencies Lacked Appropriate Internal Controls to Prevent, Detect, and Recover Fraudulent and Other Improper Payments**

During the COVID-19 pandemic, agencies have had to distribute emergency relief funding quickly and efficiently. However, agencies also need to ensure the appropriate financial and other safeguards are in place. We found significant shortcomings in agencies' internal controls, which contributed to significant fraud and improper payments in COVID-19 relief programs.

Also, we previously reported that when new programs began or existing ones were greatly expanded, agencies frequently did not develop or implement internal controls for eligibility or identity verification to help prevent fraud and improper payments.<sup>35</sup> In addition, agencies did not quickly implement certain post-payment controls such as reviewing payments after they were made to detect and recover fraud and improper payments. Lastly, we identified urgent needs for modernizing legacy data systems to better ensure program integrity.

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<sup>33</sup>The Payment Integrity Information Act of 2019 includes multiple ongoing reporting requirements for agencies related to improper payments generally but none specifically mentions fraud.

<sup>34</sup>[GAO-22-105715](#).

<sup>35</sup>[GAO-22-105715](#).

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### Open Matter for Congressional Consideration

Congress should pass legislation requiring the Office of Management and Budget (OMB) to provide guidance for agencies to develop plans for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and requiring agencies to report these internal control plans to OMB and Congress.

Source: GAO-23-106556.

Although federal laws have required agencies to submit specific internal control plans for relief funds in previous emergencies, there was no such requirement for the COVID-19 pandemic.<sup>36</sup> An effective, robust internal control system helps agencies adapt to shifting environments, evolving demands, changing risks, and new priorities throughout the lifecycle of federal programs. We found that many agencies, including those that administered some of the largest COVID-19 relief programs, did not initially implement effective internal controls or apply financial management practices to manage and oversee the distribution and use of COVID-19 relief funds. In March 2022, we suggested that Congress pass legislation requiring OMB to (1) provide guidance for agencies to develop plans for internal control in advance that would then immediately be ready for use in, or adaptation for, future emergencies or crises and (2) require agencies to report these plans to OMB and Congress.<sup>37</sup>

### Upfront Eligibility and Identity Verification Controls

Confirming the eligibility and identity of individuals receiving payments—such as confirming wage information or housing status, or verifying identity—are key controls to prevent improper payments, including those that result from fraud.<sup>38</sup> 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 emergency relief programs, which left the agencies open to significant fraud risks.

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<sup>36</sup>For example, in 2013, 2017 and 2018, four supplemental appropriations acts were enacted to provide disaster relief funding to help mitigate the effects of Hurricanes Sandy, Harvey, Irma, and Maria, and the California wildfires. See Pub. L. No. 113-2, div. A, 127 Stat. 4 (2013), Pub. L. No. 115-56, div. B, 131 Stat. 1129, 1136 (2017); Pub. L. No. 115-72, div. A, 131 Stat. 1224 (2017); and Pub. L. No. 115-123, div. B, subdiv. 1, 132 Stat 64, 65 (2018). These supplemental appropriations acts provided an internal control oversight framework to limit improper payments of these funds, requiring the Office of Management and Budget to issue criteria for federal agencies to use in designing internal controls for spending disaster relief funding. Among other requirements, they required federal agencies to submit their internal control plans for relief fund spending to GAO, their respective inspectors general, OMB, and Congress.

<sup>37</sup>[GAO-22-105715](#).

<sup>38</sup>As part of agency improper payment estimates, for fiscal year 2021 and onward, federal executive agencies are specifically required to report on the portion of their programs' improper payment estimates where the root cause of the improper payment is due to failure to verify identity. OMB Circular No. A-123, Appendix C, Requirements for Payment Integrity Improvement (OMB M-21-19). For fiscal year 2022, agencies estimated that about \$1.8 billion in improper payments included "identity" as a root cause.

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## Fraud in Federal Child Nutrition Program

### Participants

Three individuals associated with a nonprofit organization pleaded guilty to their roles in a \$250 million scheme to defraud the Federal Child Nutrition Program in Minnesota. Over 40 individuals have been charged in the scheme.

### Fraud scheme

Through the use 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 between 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-23-106556.

**Unemployment Insurance.** In response to the COVID-19 pandemic, Congress allowed states to ease certain requirements in the regular UI program to help support unemployed workers. Congress also created new UI programs that expanded eligibility and enhanced UI benefits. For example, the CARES Act created the PUA program, which allowed applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income.

Relying on program participants to self-report and self-certify information on agency forms, instead of verifying such information independently, could cause an agency to miss opportunities to prevent program fraud and abuse.<sup>39</sup> To help address this risk, the Consolidated Appropriations Act, 2021, enacted in December 2020, included a requirement for individuals to submit documentation of employment or self-employment when applying for PUA.<sup>40</sup>

In addition, during the pandemic, states have been encouraged to process and pay claims quickly while experiencing a historic number of claims. In an effort to speed claims processing, DOL encouraged states to temporarily suspend the existing waiting period for benefits and the CARES Act provided full federal funding for the first week of regular UI benefits to states that did so. According to DOL officials, under the regular UI program, DOL allows states to take up to 21 days to make the first payment of benefits, giving them time to detect potential fraud. Waiving the waiting period meant that some states had less time to employ tools for fraud prevention and detection, according to National Association of State Workforce Agencies officials.<sup>41</sup>

In October 2021, we identified fraudulent activities related to UI programs that included individuals' use of stolen or fake identity information or personally identifiable information to apply for and receive unemployment benefits.<sup>42</sup> According to officials from DOL, the agency observed an increase in the frequency and volume of identity-related fraud, as well as

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<sup>39</sup>GAO-22-105051.

<sup>40</sup>The Consolidated Appropriations Act, 2021, extended the PUA program and included a requirement that all PUA claimants must submit documentation substantiating employment, self-employment, or the planned commencement of employment or self-employment. Pub. L. No. 116-260, div. N, tit. II, § 241(a), 134 Stat, 1182, 1959-60.

<sup>41</sup>State workforce agencies are responsible for administering UI programs, among other things. The National Association of State Workforce Agencies represents all 50 state workforce agencies, the District of Columbia, and U.S. territories.

<sup>42</sup>GAO-22-105051.

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### Potential Fraud in Paycheck Protection Program (PPP) – Lenders

#### Civil Monetary Penalties

The Federal Reserve Board fined a PPP lender bank \$2.3 million for processing six PPP loans despite having detected that the loan applications contained significant indications of potential fraud and for failing to report the potential fraud in a timely manner. The six loans totaled approximately \$1.1 million.

#### Impacts

Lenders were allowed to provide PPP loans to qualified small businesses negatively affected by the COVID-19 pandemic, but were required to follow their anti-money laundering policies. This lender bank's processing and funding of potentially fraudulent PPP loans despite indicators of potential fraud and failure to report the potential fraud in a timely manner violated these policies and constituted unsafe or unsound banking practices.

significantly more sophisticated fraud schemes, since the beginning of the pandemic.

DOL continues to invest in its own identity verification resources. For example, in January 2023, we reported that DOL provided funding to procure and implement an identity verification service, which became available to states in July 2020, according to DOL officials. This service provides access to new datasets to conduct enhanced UI claimant identity verification, which can help prevent payment of fraudulent claims based on false identities. It also contains a cross-match with the Social Security Administration Death Master File to identify the use of a deceased person's Social Security number when filing for benefits. As of October 2022, there were 41 states using the identity verification service, according to DOL officials.

**Paycheck Protection Program.** As we reported in June 2020, given the immediate need for PPP loans, SBA worked to streamline PPP so that lenders could begin distributing funds as quickly as possible.<sup>43</sup> SBA's initial interim final rule allowed lenders to rely on borrower certifications to determine the borrower's eligibility and use of loan proceeds, and required limited lender review of documents provided by the borrower to determine the qualifying loan amount and eligibility for loan forgiveness.<sup>44</sup>

As set forth in the CARES Act, borrowers had to certify in good faith that (1) current economic uncertainty made the loan request necessary to support the applicant's ongoing operations and (2) the funds would be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments. To streamline the process, SBA required minimal loan underwriting from lenders, which

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<sup>43</sup>[GAO-20-625](#).

<sup>44</sup>See 85 Fed. Reg. 20,811 (Apr. 15, 2020). The interim final rule stated that lenders would be held harmless for borrowers' failure to comply with program criteria.

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made the program more susceptible to fraudulent applications.<sup>45</sup> As we have previously reported, reliance on applicant self-certifications can make a program more vulnerable to exploitation by criminal actors or ineligible applicants.<sup>46</sup>

**COVID-19 Economic Injury Disaster Loans.** 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 9 months later—removed this restriction. In September 2022, the SBA OIG found that SBA did not implement the tax return transcript requirement in a timely manner, potentially disbursing COVID-19 EIDL loans to ineligible entities.<sup>47</sup> Specifically, the SBA OIG found that for about 4 months after Congress removed the tax return prohibition, SBA made 133,832 COVID-19 EIDL disbursements, totaling about \$8.5 billion without proving applicant eligibility using official tax information. Of that amount, more than \$92 million was disbursed to businesses with suspect tax identification numbers.

The SBA OIG reviewed a sample of loans approved before SBA implemented the requirement for tax return transcripts and found that about half of them, totaling \$1.1 million, should not have been approved. The SBA OIG also reviewed a sample of COVID-19 EIDL disbursements approved after the tax return transcript requirement was implemented. It

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<sup>45</sup>See 85 Fed. Reg. 20,811, 20,815 (Apr. 15, 2020). Because of the limited loan underwriting, lenders and SBA have less information from applicants to detect errors or fraud. For standard loans under SBA's 7(a) program, borrowers have to provide documentation that includes a completed application, personal and business financial statements, and income tax returns. However, the initial interim final rule's requirement that lenders follow applicable Bank Secrecy Act requirements may require lenders to collect additional identifying information from borrowers before approving a PPP loan. (The Bank Secrecy Act and its implementing regulations generally require financial institutions, including banks, to collect and retain various records of customer transactions, verify customers' identities, maintain anti-money laundering compliance programs, and report suspicious transactions.) In an interim final rule posted to SBA's website on May 22, 2020, SBA informed lenders that the lender would not receive its lender processing fee if SBA determined that the borrower was ineligible for a PPP loan. See 85 Fed. Reg. 33,010, 33,014 (June 1, 2020).

<sup>46</sup>GAO, *Aviation: FAA Needs to Better Prevent, Detect, and Respond to Fraud and Abuse Risks in Aircraft Registration*, [GAO-20-164](#) (Washington, D.C.: Mar. 25, 2020).

<sup>47</sup>Small Business Administration, Office of Inspector General, *Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants*, Report No. 22-22 (Washington, D.C.: Sept. 29, 2022).

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Post Payment Review and  
Recovery Controls

found that disbursements totaling \$838,000 should not have been approved because the loan files did not contain conclusive evidence that the businesses existed on or before January 31, 2020.

The SBA OIG recommended that SBA recover funds disbursed to the ineligible applicants identified in the sample. It also recommended that SBA review the remaining COVID-19 EIDL disbursements with suspect tax identification numbers. If SBA flags those borrowers as ineligible, it should recover the funds. SBA stated that it plans to review the loans identified in the sample as well as the loans the SBA OIG identified that may not meet eligibility criteria. If the business is ineligible, SBA will attempt recovery of those loan funds.

**Unemployment Insurance.** In late May 2021, DOL's OIG reported that some states did not perform required overpayment recovery activities.<sup>48</sup> Specifically, DOL OIG found that 19 states (38 percent) did not perform the required overpayment recovery activities, such as benefit offsets, for the recipients to repay the UI overpayments.<sup>49</sup> The OIG further reported that once states identify overpayments, it is essential that they complete recovery activities to mitigate the risk of financial loss as a result of overpaid claims.<sup>50</sup> The OIG recommended that DOL assist states with reporting of claims, overpayments, and fraud to create clear and accurate information and then use the overpayment and fraud reporting to prioritize and assist states with fraud detection and recovery. In ongoing work, we

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<sup>48</sup>Department of Labor, Office of Inspector General, *COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs*, Report No. 19-21-004-03-315 (Washington, DC: May 28, 2021).

<sup>49</sup>In this case, benefit offsets are benefits withheld by the state agency to satisfy the requirement for the recipient to repay an overpayment.

<sup>50</sup>DOL has issued various guidance during the pandemic related to overpayments.

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## Fraud in Unemployment Insurance (UI)

### 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 their position to fraudulently obtain funds to purchase high-end handbags and other luxury goods.

Source: GAO analysis of court documentation | GAO-23-106556.

are reviewing agency COVID-19 overpayment recovery efforts, including those for UI.<sup>51</sup>

From April 2020 through September 2022, states and territories reported about \$48.6 billion in overpayments across the UI programs, including about \$15.3 billion from PUA, \$18.7 billion from Federal Pandemic Unemployment Compensation, \$11.7 billion from the regular UI and Extended Benefits programs, and \$2.9 billion from Pandemic Emergency Unemployment Compensation.<sup>52</sup>

States and territories also report the amounts of fraud overpayments, a subset of the total overpayment amounts. From April 2020 through September 2022, states and territories reported about \$4.8 billion in overpayments from fraud across the UI programs, including about \$1.6 billion from PUA, \$1.8 billion from Federal Pandemic Unemployment Compensation, \$1.2 billion from the regular UI and Extended Benefits programs, and \$0.2 billion from Pandemic Emergency Unemployment Compensation.<sup>53</sup> However, according to DOL, states do not report these overpayments as fraud until investigations are complete and fraud has been confirmed, which may take a long time.

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<sup>51</sup>In January 2021, we identified concerns about overpayments and potential fraud in the UI system, specifically in the PUA program. We recommended that DOL collect data from states on the amount of PUA overpayments recovered. GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021). The Consolidated Appropriations Act, 2021 provided states with authority to waive certain PUA overpayments. In March 2021, we recommended that DOL collect data from states on the amount of overpayments waived in the PUA program. GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021). DOL issued PUA program guidance and updated instructions in January 2021 for states to report PUA overpayments recovered. In September 2021, it issued guidance and updated instructions for states to report PUA overpayments waived. States have begun reporting these data to DOL but sustained reporting by more states is needed to help inform DOL, policymakers, and the public about the amount of PUA overpayments recovered and waived.

<sup>52</sup>We accessed the overpayments data on January 19-20, 2023; these data are subject to change as more states report data and as states revise previously reported data. This overpayments data is based on state reporting on overpayments and therefore differs from DOL's reporting on estimated improper payments.

<sup>53</sup>Because states may use different definitions, an overpayment that is classified as fraudulent in one state might not be classified as fraudulent in another state. We accessed the fraud overpayments data on January 19-20, 2023; these data are subject to change as more states report data and as states revise previously reported data. The total PUA amount shown also includes fraud overpayments related to identity theft.

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**Crosscutting Fraud: COVID-19 Economic Injury Disaster Loans (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-23-106556.

**Paycheck Protection Program and COVID-19 Economic Injury**

**Disaster Loans.** Beginning in June 2020, in our first government-wide report on the federal response to the COVID-19 pandemic, we noted the need for SBA to develop and implement plans to respond to program integrity risks in its small business loan programs.<sup>54</sup> Specifically, we recommended that SBA develop and implement plans to identify and respond to risks in PPP to, among other things, ensure program integrity, achieve program effectiveness, and address potential fraud. To address this recommendation, SBA developed a plan in late 2020 outlining steps it planned to take to review PPP loans made in 2020, including automated screenings of all loans, manual reviews of selected loans, and quality control reviews to ensure the quality, completeness, and consistency of the review process. SBA provided a finalized plan and full-set of updated procedures covering the remaining loans in January 2022. To implement the plan, SBA's loan review contractors conducted automated screenings for all PPP loans made in 2020 in August and early September 2020.

The contractor used a rules-based tool to compare PPP loan data against publicly available information and apply eligibility and fraud detection rules to identify anomalies or attributes that could indicate noncompliance with eligibility requirements. According to SBA officials, contractor staff completed about 78,000 manual reviews and referred about 8,900 loans to SBA for further review, as of November 15, 2021.

Starting in January 2021, SBA's contractors began screening all PPP loan applications using screening rules with potential indicators of non-eligibility or fraud risk. These rules were developed from information gathered in SBA's review of 2020 loans. In addition, SBA continued to conduct manual reviews of flagged loans. According to SBA data, as of October 2022, about 93 percent of PPP borrowers had applied for loan forgiveness. As a result of implementing the PPP oversight plan we recommended, SBA had conducted reviews and determined that some borrowers were ineligible for the related loan amounts or used the loan proceeds for unauthorized uses. These reviews resulted in PPP loan proceeds with a net present value of about \$4.7 billion not being forgiven.

The SBA OIG also reported on concerns about SBA's recovery controls. Specifically, the SBA OIG issued a management advisory in September

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<sup>54</sup>[GAO-20-625](#).

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2022 about its concerns regarding SBA's decision to end collections on purchased PPP loans with an outstanding balance of \$100,000 or less.<sup>55</sup>

In March 2021, we recommended that SBA implement a comprehensive oversight plan to identify and respond to risks in the COVID-19 EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud. As of January 2023, SBA has developed an oversight plan that describes controls SBA had or planned to implement to identify and address fraud risks in the COVID-19 EIDL program. We are continuing to monitor SBA's progress to fully implement the controls described in its oversight plan.

In March 2021, based on our findings on these programs and the audit of SBA's fiscal year 2020 financial statements, we added SBA's emergency loans for small businesses issued under PPP and the COVID-19 EIDL program to our High Risk List.<sup>56</sup> These two programs together comprise COVID-19 relief funding estimated at over \$900 billion. While these loans and advances helped many small businesses, SBA's limited initial internal controls and lack of finalized oversight plans at the beginning of these programs created significant risk of hundreds of millions of dollars in improper payments.

**Restaurant Revitalization Fund.** In July 2022, we found that SBA had not used data analytics to identify potentially fraudulent Restaurant Revitalization Fund (RRF) award recipients.<sup>57</sup> During the application process, SBA collected a variety of data from applicants, such as business characteristics, to screen applications for potential fraud. However, SBA officials told us they were not analyzing these data to detect potentially fraudulent recipients. We recommended that SBA develop and implement data analytics across the RRF awards as a means to detect fraudulent award recipients. As of January 2023, SBA told us that the agency had taken steps to execute data analytics across the RRF portfolio and plans to issue a report on its findings by March

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<sup>55</sup>Small Business Administration, Office of Inspector General, *Management Advisory: SBA's Guaranty Purchases for Paycheck Program Loans*, Report No. 22-25 (Washington, D.C.: Sept. 30, 2022).

<sup>56</sup>Additional details about the audits of SBA's financial statements are provided earlier in this testimony. We designate federal programs and operations as "high risk" due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or because they need transformation. GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

<sup>57</sup>GAO, *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, [GAO-22-105442](#) (Washington, D.C.: Jul. 14, 2022).

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2023. SBA stated that the results would be incorporated into post-award review procedures.

In addition to our findings on analytical controls, we found that SBA had not fully used law enforcement data to identify potential fraud in the RRF program. SBA used PPP data to verify applicant identities and award amounts. However, agency officials told us they were not cross-checking data on RRF recipients against information on suspicious borrowers from the PPP program provided by DOJ and the SBA OIG. Among other things, we recommended that SBA develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud in RRF recipients. As of January 2023, SBA stated that it had begun reviewing 10 percent of all RRF awards to confirm eligibility and use of funds compliance. SBA indicated that the 10 percent sample for review includes RRF recipients that have a flagged PPP loan. We will continue to review information provided to us by SBA that focuses on the use of enforcement data on suspected fraud in other SBA programs.

**Shuttered Venue Operators Grant Program.** In October 2022, we found that SBA's draft procedures for post-award monitoring of grants awarded through the Shuttered Venue Operators Grant program discuss strategies to identify and respond to suspected fraud. However, we found that SBA's draft procedures did not clearly link planned efforts to the risks the agency identified in its periodic risk assessments.<sup>58</sup> Moreover, the procedures did not explicitly discuss whether the risks were within accepted tolerance levels for the program. While SBA stated that it has a number of monitoring procedures for addressing program risk more generally, we maintain that the draft procedures do not provide specific linkage to the risks SBA identified.

**Emergency Rental Assistance.** In December 2022, we identified potentially duplicative emergency rental assistance payments but found that Treasury had not conducted a detailed risk assessment of the

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<sup>58</sup>GAO, *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, [GAO-23-105199](#) (Washington, D.C.: Oct. 11, 2022).

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## Fraud in Coronavirus Food Assistance Program (CFAP)

### 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 their commercial farming operation, despite not owning or operating a farming operation. The individual also submitted a fraudulent IRS Form 7200, meant 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-23-106556.

program's susceptibility to improper payment, for example, by reviewing grantee payment data.<sup>59</sup> We also found that Treasury significantly lacked complete data on payments grantees made to landlords and renter households, which the agency needs to ensure payments complied with program requirements. We recommended that Treasury collect complete payment data from grantees and conduct a detailed assessment of improper payment risks. Treasury agreed with our recommendations. While agency officials said close-out reporting requirements would help improve the completeness of payment data reported by grantees, officials did not commit to additional steps to assess or address improper payment risks because of resource limitations.<sup>60</sup>

**The Coronavirus Food Assistance Program.** In September 2022, we found problems with the process the U.S. Department of Agriculture (USDA) used to review claims producers submitted for payment to the Coronavirus Food Assistance Program.<sup>61</sup> This program provided \$31 billion to producers of agricultural commodities, including crops and livestock, to offset losses associated with the COVID-19 pandemic. We reviewed claims of 90 producers with risk factors for improper payments and found that over half of these producers did not provide full support for their payments, potentially making it harder to identify payment errors and fraud. We referred those claims where full support was not provided to the USDA OIG. As of January 2023, the OIG is reviewing these referrals

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<sup>59</sup>GAO, *Emergency Rental Assistance: Treasury's Oversight is Limited by Incomplete Data and Risk Assessment*, [GAO-23-105410](#) (Washington, D.C.: Dec. 20, 2022). Congress appropriated \$46.55 billion to Treasury for the Emergency Rental Assistance (ERA) programs to address financial and housing instability caused by the COVID-19 pandemic. Congress appropriated these funds in December 2020 and March 2021, known as ERA1 and ERA2, respectively. For the purposes of this statement, we refer to ERA1 and ERA2 collectively as the ERA programs. Treasury uses the same approach but considers ERA1 and ERA2 to be separate programs managed by the same office. The ERA programs make funding available to state, territorial, tribal, and local governments (grantees), which are to use the funds to provide assistance to eligible households for rent, utility, and other housing-related expenses.

<sup>60</sup>We found earlier in January 2022 that Treasury had not designed processes, such as post-payment reviews or recovery audits, for identifying and recovering overpayments made by grantees to households, landlords, or utility providers to help reasonably assure payment integrity for the ERA programs. As of September 2022, Treasury had not responded to our request for additional information on the status of this recommendation. GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, [GAO-22-105291](#) (Washington, D.C.: Jan. 27, 2022).

<sup>61</sup>GAO, *Coronavirus Food Assistance Program: USDA Should Conduct More Rigorous Reviews of Payments to Producers*, [GAO-22-104397](#) (Washington, D.C.: Sept. 8, 2022).

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for potential investigation and will provide more information once case determinations or investigations are completed.

We also recommended that USDA conduct additional and more rigorous reviews of Coronavirus Food Assistance Program payments. While USDA generally agreed with the recommendations, as of September 2022, the agency has not yet taken action to implement these recommendations. USDA noted that its Farm Service Agency intends to provide a response on the status of actions to address the recommendation by the end of January 2023.

**Payroll Support Program.** In November 2020, we found that Treasury had not completed developing and implementing a plan to monitor recipients' compliance with the Payroll Support Program, which provided \$32 billion in assistance to aviation businesses, 3 months after the first quarterly compliance reports were due.<sup>62</sup> In April 2021, GAO confirmed that Treasury had developed, documented, and implemented a risk-based approach to monitor Payroll Support Program recipients' compliance with the terms of assistance. Treasury's risk-based approach entails a two level compliance review. In the first-level review, Treasury conducts automated testing on all recipients' quarterly reports using factors that can trigger recipients being moved to the next review. In the second level review, Treasury analysts conduct a more detailed review of recipients that failed the first level review or were selected for other reasons. Treasury has also developed penalties and a process for remediating noncompliance with Payroll Support Program agreement terms. Since April 2021, Treasury has identified noncompliance by recipients and applied penalties, as appropriate.

**Coronavirus State and Local Fiscal Recovery Funds.** In October 2021, we reported that Treasury officials told us they were developing plans for overseeing the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), which provides funds to states, local, and tribal governments, the District of Columbia, and U.S. territories for a broad range of costs stemming from the fiscal effects of the COVID-19

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<sup>62</sup>GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020).

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pandemic.<sup>63</sup> However, as of October 2021, Treasury had not yet finalized or documented such plans, to include developing the department's approach for monitoring recipients' use of program funds.<sup>64</sup> We recommended that Treasury finalize key recipient monitoring policies and procedures. As of September 2022, Treasury had designed and documented a risk-based compliance policy to monitor CSLFRF recipients' use of program funds and asserted that the agency would continue to adopt additional procedures as appropriate.

**Provider Relief Fund.** In October 2021, we found that the Health Resources and Services Administration (HRSA), within the Department of Health and Human Services, had not finalized procedures for recovering overpayments or recovered the bulk of the overpayments that it had already identified.<sup>65</sup> We recommended that HRSA establish time frames for completing post-payment reviews to promptly address risks and identify overpayments, as well as finalize and implement post-payment recovery of any Provider Relief Fund overpayments, unused payments, or payments not properly used.

While it took initial actions to address this recommendation, HRSA suspended its post-payment recovery efforts in March 2022. HRSA reported in January 2023 that the agency paused its recovery efforts in order to design a dispute resolution process for providers who do not believe they should have to return funds and also to get legal clarification on its authority to recover overpayments. HRSA finalized its dispute resolution process in December 2022 and also began sending out repayment notices to providers that did not fulfill their reporting requirements. The agency intends to send out repayment notices by September 2023 to all providers who did not fulfill their reporting requirements. According to HRSA, the agency is still in the process of determining its authority to recover overpayments in other scenarios. We will continue to monitor the status of this recommendation as HRSA

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<sup>63</sup>Pub. L. No. 117-2, tit. IX, subtit. M, § 9901, 135 Stat. at 223 (codified at 42 U.S.C. §§ 802-03). This law appropriated \$350 billion in total funding for two funds—the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund. For purposes of this testimony, we discuss these two funds collectively as the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF).

<sup>64</sup>[GAO-22-105051](#). The Provider Relief Fund reimburses eligible providers for health care-related expenses or lost revenues attributable to COVID-19.

<sup>65</sup>[GAO-22-105051](#).

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UI IT System Controls and Modernization

finalizes its processes and determines the scenarios under which the agency will recover funds.

In recent years, GAO, DOL, and the DOL OIG have reported on the need for improving federal and state management of the UI system, modernizing IT, and improving program integrity.<sup>66</sup>

Based on our findings from this body of work and the urgent need to address persistent issues in the UI system, in June 2022, we added the UI system to our High-Risk List.<sup>67</sup> DOL has some activities planned and underway for the UI system, such as creating a UI modernization office and implementing strategies aimed at reducing risk. However, many long-standing issues remain unaddressed and will require DOL to work with states and other stakeholders to make progress in this area.

GAO and the DOL OIG have also reported on the challenges that some states' reliance on legacy systems pose to UI programs.<sup>68</sup> Specifically, the DOL OIG had identified legacy IT systems as one of the causes of states' inability to detect and recover improper payments, including fraudulent payments.<sup>69</sup> For example, some state officials reported that their IT systems did not have the capability to perform cross-matches—a method used to detect improper payments—for such a large volume of claims. According to OMB, as of November 2022, 43 states are performing cross-matching. In ongoing work, we are reviewing UI IT system modernization efforts.

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Federal Inspectors General Lack Permanent, Government-wide Analytic Capabilities to Help Agencies Identify Fraud

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.

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<sup>66</sup>The UI system includes UI programs that were established prior to the COVID-19 pandemic and programs established in response to the COVID-19 pandemic.

<sup>67</sup>GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, [GAO-22-105162](#) (Washington, D.C.: June 7, 2022).

<sup>68</sup>[GAO-22-105162](#).

<sup>69</sup>Department of Labor, Office of Inspector General, *COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs*, Report No. 19-21-004-03-315 (Washington, D.C.: May 28, 2021).

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At the outset of the pandemic, there was no permanent, government-wide analytical capability to help inspectors general identify fraud. Previously, this type of analytical capability had existed within the Recovery Operations Center, established by the Recovery Board. The board, composed of agency inspectors general, was created by the American Recovery and Reinvestment Act of 2009 to oversee funds appropriated under the act.

GAO previously recommended that Congress and Treasury preserve the Recovery Operations Center's functions, given its proven value in ensuring federal spending accountability.<sup>70</sup> Congress and Treasury did not implement our recommendations to make such a center permanent, and the Recovery Board and Recovery Operations Center's activity terminated at the end of September 2015.

In March 2021, the American Rescue Plan Act of 2021 (ARPA) appropriated \$40 million dollars to the PRAC, which subsequently established the Pandemic Analytics Center of Excellence (PACE). The role of PACE is to help oversee the trillions of dollars in federal pandemic-related emergency spending. According to the PRAC, the PACE applies the best practices of the Recovery Operations Center, with the goal of building an "affordable, flexible, and scalable analytics platform" to support OIGs during their pandemic-related work, including beyond the organization's sunset date in 2025.

**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-23-106556.

However, PACE was not established until more than a year after agencies began distributing relief funds. The delayed establishment of the center resulted in the loss of valuable time for OIGs to help program officials understand fraud risks and identify potential fraud. In addition, the center is focused on pandemic programs only and is time-limited. 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.<sup>71</sup> Without permanent 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 better prepare for applying fundamental financial and fraud risk management practices to future emergency funding.

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<sup>70</sup>GAO, *Federal Spending Accountability: Preserving Capabilities of Recovery Operations Center Could Help Sustain Oversight of Federal Expenditures*, [GAO-15-814](#) (Washington, D.C.: Sept. 14, 2015).

<sup>71</sup>[GAO-22-105715](#).

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## Agencies Continue to Have Challenges with Improper Payments

Reducing improper payments is critical to safeguarding federal funds. Improper payments have consistently been a government-wide issue. Since fiscal year 1997, our audit reports on the U.S. government's consolidated financial statements have identified improper payments as a material deficiency or material weakness in internal control.

Since fiscal year 2003, cumulative improper payment estimates have totaled about \$2.4 trillion (see fig. 3).<sup>72</sup> For fiscal year 2022, OMB reported that federal agencies had estimated about \$247 billion in improper payments. While this estimation of total improper payments represented a decrease of about \$34 billion from the prior fiscal year (\$281 billion), it was an increase in more than \$40 billion from fiscal year 2020 (\$206 billion).<sup>73</sup>

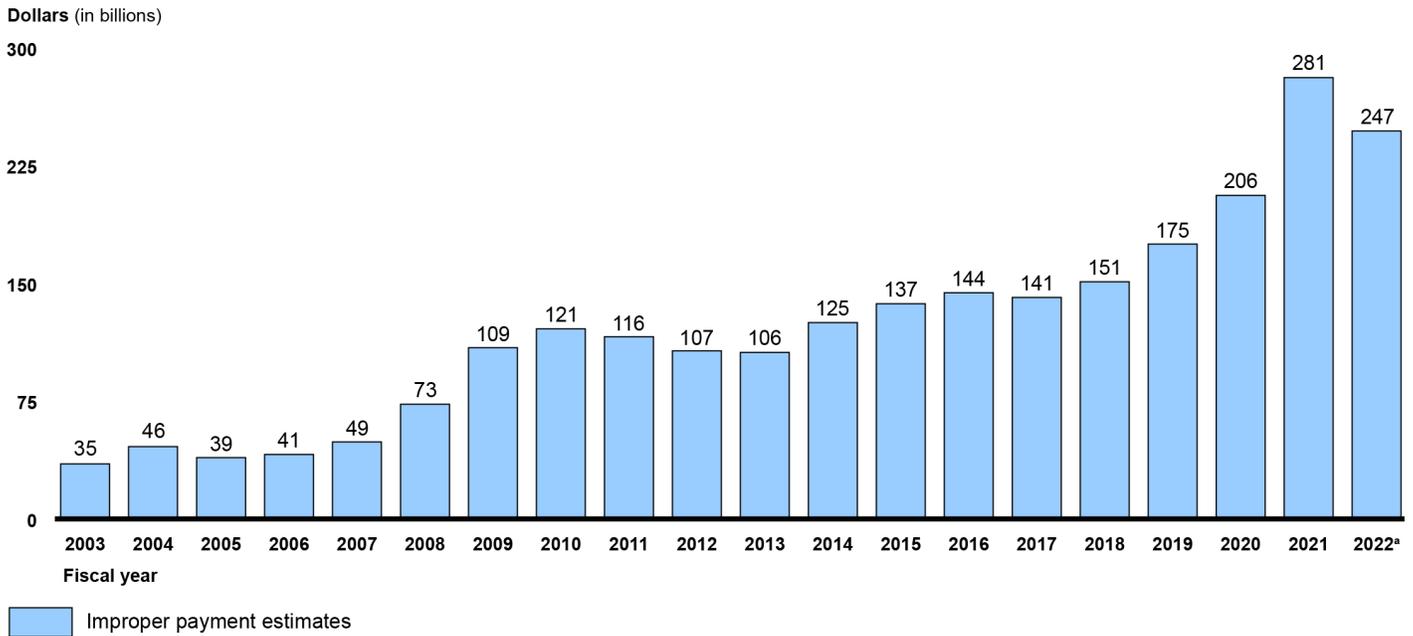
However, this estimate does not reflect all government-wide improper payments. Notably, several agencies with large programs that have been identified as susceptible to significant improper payments are not reporting estimates as required. These programs include DOL's PUA program, USDA's Supplemental Nutrition Assistance Program, and the Department of Health and Human Services' Temporary Assistance for Needy Families program.

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<sup>72</sup>In 2003, federal executive agencies were required by statute to begin reporting estimated improper payments for certain programs and activities. Statutes that govern improper payment reporting define executive agency to mean a department, or agency, or an instrumentality in the executive branch of the U.S. government. 31 U.S.C. § 102. Prior-year improper payment estimates have not been adjusted for inflation.

<sup>73</sup>Agencies report improper payment information at [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov)—a U.S. government website managed by the Office of Management and Budget (OMB)—which contains, among other things, information about current and historical rates and amounts of estimated improper payments. For more information on improper payment estimates across the federal government, see appendix II.

**Figure 3: Government-wide Improper Payment Estimates for Fiscal Years 2003–2022 Totaled \$2.4 Trillion**



Source: GAO. | GAO-23-106556

Note: Prior year improper payment estimates have not been adjusted for inflation.

Improper payments remain a pervasive problem across the federal government. For example, 18 agencies reported improper payment estimates for 82 federal programs or activities for fiscal year 2022.<sup>74</sup> In addition, 17 of these programs and activities reported estimated improper payment rates of 10 percent or greater. Although federal agencies have increased their recoveries of overpayments from the previous fiscal year, from \$22.5 billion for fiscal year 2021 to \$23.2 billion for fiscal year 2022, total recoveries represented about 9 percent to 12 percent of estimated overpayments made in both years.

<sup>74</sup>Agencies are required to develop improper payment estimates and corrective action plans for any programs or activities identified as susceptible to significant improper payments by the agency administering the program or activity, OMB, or statute.

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## Congress Can Take Certain Actions Now to Increase Transparency and Accountability of Future Federal Spending

In our March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, we identified 10 actions that Congress could take to strengthen internal controls and financial and fraud risk management practices across the government.<sup>75</sup> 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. (See app. III for the list of the 10 matters for congressional consideration.)

**Make program integrity enhancements.** We suggested three matters for congressional consideration to further enhance program integrity efforts across the government:<sup>76</sup>

- Establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.
- 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.
- Pass legislation requiring OMB to (1) provide guidance for agencies to develop plans in advance for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and (2) require agencies to report these plans to OMB and Congress.

**Amend the Payment Integrity Information Act of 2019.** Quickly reporting improper payment estimates for emergency relief programs is critical to agency accountability and transparency over whether appropriated funds were spent for their intended purposes. In addition, estimating improper payments and identifying root causes help ensure that agencies develop and implement corrective actions to reduce them. In November 2020, we suggested that Congress consider, in any future legislation appropriating COVID-19 relief funds, designating as “susceptible to significant improper payments” all executive agency programs and activities that made more than \$100 million in payments from COVID-19 relief funds.<sup>77</sup> In March 2022, we suggested that Congress amend the Payment Integrity Information Act of 2019 to apply this criteria to all new federal programs for their initial years of operation.<sup>78</sup>

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<sup>75</sup>[GAO-22-105715](#).

<sup>76</sup>[GAO-22-105715](#).

<sup>77</sup>[GAO-21-191](#).

<sup>78</sup>[GAO-22-105715](#).

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Delays in estimating improper payments can negatively affect an agency's ability to develop timely corrective actions.

**Strengthen management of improper payment risks and spending data.** Since enactment of the Chief Financial Officers Act of 1990 (CFO Act), accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations and financial condition, including long-term sustainability.

In August 2020, we suggested eight matters for congressional consideration to improve federal financial management through refinements to the CFO Act and related statutes. Such actions included that Congress consider legislation to require that chief financial officers (CFO) and deputy CFOs at the CFO Act agencies have the necessary responsibilities to carry out federal financial management activities effectively, and agency identification and, if necessary, development of key financial management information needed for effective financial management and decision-making, as well as annual assessments and reporting by agency management on the effectiveness of internal controls over key financial management information and auditor testing and reporting on agency internal control over the information.<sup>79</sup>

In March 2022, we suggested three matters with additional refinements based on experiences during the COVID-19 pandemic and the rapid growth and magnitude of improper payments:<sup>80</sup>

- Clarify that (1) CFOs at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information and that (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information, discussed above, include internal controls over spending data and improper payment information.
- Require each agency CFO to (1) submit a statement, in agencies' annual financial reports, certifying the reliability of improper payment risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the

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<sup>79</sup>GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, [GAO-20-566](#) (Washington, D.C.: Aug. 6, 2020).

<sup>80</sup>[GAO-22-105715](#).

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development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate.

- Require improper payment information required to be reported under the Payment Integrity Information Act of 2019 to be included in agency financial reports.

**Extend requirements for OIGs to report on USAspending.gov data.** In March 2022, we testified about the lack of quality federal spending data for financial management reviews.<sup>81</sup> Quality federal spending data is key for management to help assess whether agencies are meeting program objectives. In addition, providing clear and transparent information about limitations and inconsistencies of data can help users understand the extent to which the data are comparable and reliable. We suggested that Congress amend the DATA Act to (1) extend the previous requirement for agency inspectors general to review the completeness, timeliness, quality, and accuracy of their respective agency data submissions on a periodic basis<sup>82</sup> and (2) clarify the responsibilities and authorities of OMB and Treasury for ensuring the quality of data available on USAspending.gov.<sup>83</sup>

**Amend the Social Security Act regarding 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.<sup>84</sup> 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

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<sup>81</sup>[GAO-22-105715](#).

<sup>82</sup>The DATA Act required each OIG to issue three reports assessing agency data submission and implementation and use of data standards. The last report was due November 2021. Pub. L. No. 113-101, § 3, 128 Stat. at 1151. For more information, see [GAO-20-540](#).

<sup>83</sup>Pub. L. No. 113-101, § 3, 128 Stat. at 1148.

<sup>84</sup>GAO, *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); [GAO-20-625](#).

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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. 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.<sup>85</sup>

Also, the Joint Financial Management Improvement Program, a cooperative venture between Treasury, OMB, the Office of Personnel Management, and GAO, has taken steps to help address fraud and improper payments. For example, in October 2020, the Joint Financial Management Improvement Program began an initiative to identify key practices to enhance identity verification and potentially reduce improper payments. As part of this effort, the Joint Financial Management Improvement Program convened a panel of experts from federal, state, and international governments as well as the private and nonprofit sectors. In July 2022, the program issued a report distilling concepts and ideas discussed by the expert panel into a set of key practices and considerations.<sup>86</sup>

To accompany the report, the Joint Financial Management Improvement Program also published an interactive and illustrative model that allows users to understand the potential benefits and tradeoffs of implementing various identity verification tools and processes.<sup>87</sup>

GAO also has ongoing work developing a framework to provide principles and practices that can help federal managers mitigate improper payments in emergency assistance programs. Specifically, the framework will incorporate standards for internal controls and for financial and fraud risk management practices as well as requirements from relevant laws and guidance on improper payments. This work will highlight aspects of managing improper payments that arise in the context of emergency assistance, which may necessitate special considerations. This framework is also intended as a resource for Congress to use when designing new programs or appropriating additional funding in response to emergencies.

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<sup>85</sup>[GAO-22-105715](#).

<sup>86</sup>Joint Financial Management Improvement Program, *Key Practices to Reduce Improper Payments through Identity Verification*, JFMIP-22-01 (Washington, D.C.; July 2022).

<sup>87</sup>Joint Financial Management Improvement Program and GAO Innovation Lab, *ID Verification Controls Simulator: An Interactive Illustration of Concepts identified by the June 2021 JFMIP Expert Panel on Identity Verification to Prevent Improper Payments*, [https://gaoinnovations.gov/id\\_verification/](https://gaoinnovations.gov/id_verification/), accessed Jan. 22, 2023.

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Chairman Comer, Ranking Member Raskin, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions.

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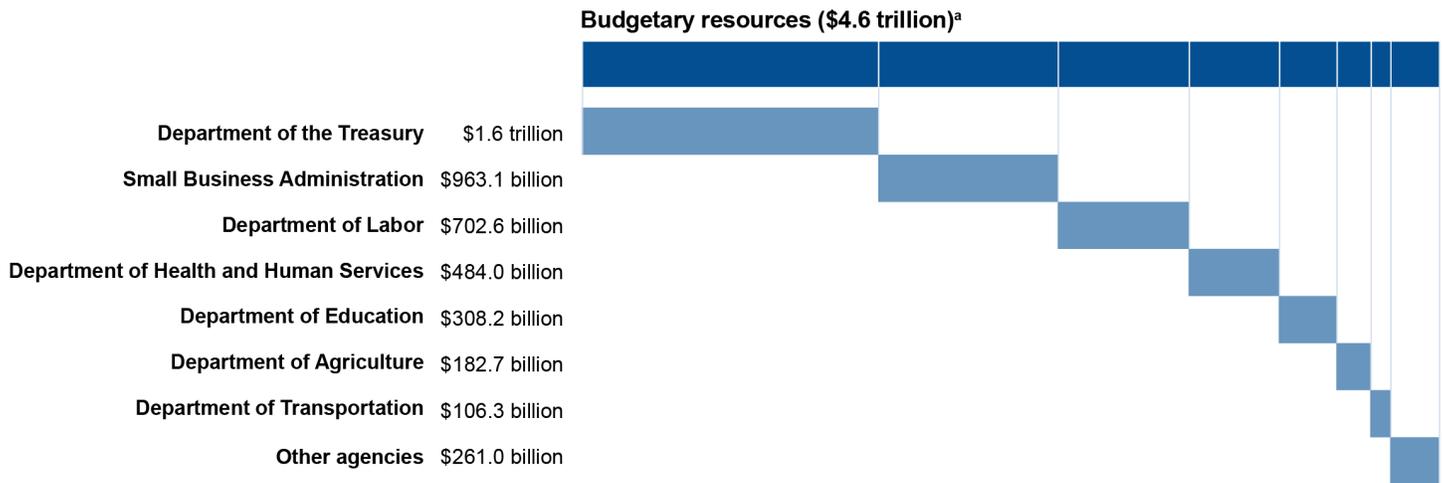
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# Appendix I: COVID-19 Relief Funding and Spending

The six COVID-19 relief laws have provided about \$4.6 trillion for pandemic response and recovery.

Figure 4 provides details on COVID-19 relief funding by agency.

**Figure 4: COVID-19 Relief Funding By Agency, as of Nov. 30, 2022**



Source: GAO analysis of data from the Department of the Treasury and applicable agencies. | GAO-23-106556

<sup>a</sup>For the purposes of this testimony, the COVID-19 relief laws consist of the six laws providing comprehensive relief across federal agencies and programs that Treasury uses to report COVID-19 spending. These six laws are the American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, 135 Stat. 4; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 178 (2020); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020); and the Coronavirus Preparedness and Response Supplemental Appropriations Act 2020, Pub. L. No. 116-123, 143 Stat. 146. Total budgetary resources as of November 30, 2022, reported to the Department of the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System, reflect appropriations, as well as transfers, adjustments, recoveries, rescissions, and returns of unused indefinite appropriations. Therefore, amounts can fluctuate month to month. Federal agencies use the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to report proprietary financial and budgetary execution information to Treasury.

The major spending areas shown in table 1 represent \$3.7 trillion, or 80 percent, of the total amounts provided. For these nine spending areas, agencies reported obligations totaling \$3.6 trillion and expenditures totaling \$3.4 trillion as of November 30, 2022. Table 1 also provides additional details on budgetary resources, obligations, and expenditures of government-wide COVID-19 relief funds, including the major spending areas as of November 30, 2022.

**Table 1: COVID-19 Relief Funding and Spending, as of Nov. 30, 2022**

Major spending area	Total budgetary resources (\$ in billions)	Total obligations (\$ in billions)	Total expenditures (\$ in billions)
Economic Impact Payments (Department of the Treasury)	858.6	858.0	858.0
Business Loan Programs (Small Business Administration)	833.0	828.1	828.0 <sup>a</sup>
Unemployment Insurance (Department of Labor)	702.0	699.9	690.3
Coronavirus State and Local Fiscal Recovery Funds (Department of the Treasury)	350.0	349.9	349.5
Public Health and Social Services Emergency Fund (Department of Health and Human Services)	345.7	324.0	274.0
Education Stabilization Fund (Department of Education)	277.7	277.3	142.7
Coronavirus Relief Fund (Department of the Treasury)	150.0	149.9	149.8
Supplemental Nutrition Assistance Programs (Department of Agriculture)	121.1	101.8	101.3
Pension Benefit Guaranty Corporation Fund <sup>b</sup> (Pension Benefit Guaranty Corporation)	52.7	8.9	7.8
Other areas <sup>c</sup>	908.2	848.5	674.6
<b>Total<sup>d</sup></b>	<b>4,599.0</b>	<b>4,446.3</b>	<b>4,075.9</b>

Source: GAO analysis of data from the Department of the Treasury and applicable agencies. | GAO-23-106556

Note: Total budgetary resources, obligations, and expenditure data shown for the major spending areas are based on data reported by applicable agencies to Treasury’s Governmentwide Treasury Account Symbol Adjusted Trial Balance System. Each spending area may include multiple programs. Total budgetary resources reflect the amount of funding made available for the COVID-19 response under the American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, 135 Stat. 4; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020); Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020); CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020); and Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. 146. Total budgetary resources reflect appropriations, as well as transfers, adjustments, recoveries, rescissions, and returns of unused indefinite appropriations. Therefore, amounts can fluctuate from month to month. An obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received, or a legal duty on the part of the U.S. government that could mature into a legal liability by virtue of actions on the part of another party that are beyond the control of the U.S. government. An expenditure is the actual spending of money, or an outlay. Expenditures shown include some estimates, such as estimated subsidy costs for direct loans and loan guarantees.

<sup>a</sup>The Small Business Administration’s Business Loan Program account includes activity for the Paycheck Protection Program loan guarantees and certain other loan subsidies. These expenditures relate mostly to the loan subsidy costs (i.e., the loan’s estimated long-term costs to the U.S. government).

<sup>b</sup>Under the American Rescue Plan Act of 2021, the Pension Benefit Guaranty Corporation will receive the necessary funding to provide payments to qualifying multiemployer plans as defined in this law to remain solvent through the end of plan year 2051. The requested amount will fund the fiscal year 2022 Special Financial Assistance payments to qualifying plans and related administrative expenses.

<sup>c</sup>Several provisions in the Families First Coronavirus Response Act and the American Rescue Plan Act of 2021 authorized increases in Medicaid payments to states and U.S. territories. The Congressional Budget Office estimated that federal expenditures from these provisions would total

approximately \$76.9 billion through fiscal year 2030. The largest increase to federal Medicaid spending is based on a temporary formula change rather than a specific appropriated amount. Some of the estimated costs in this total are for the Children’s Health Insurance Program, permanent changes to Medicaid, and changes not specifically related to COVID-19. This increased spending is not accounted for in the funding provided by the COVID-19 relief laws and is therefore not included in this table.

<sup>d</sup>Because of rounding, amounts shown in columns may not sum to the totals.

Total unobligated balances—the amount of budgetary resources still available—were \$152.7 billion, or 3 percent of the total amount provided, as of November 30, 2022. Three major spending areas shown in table 2 represent \$84.9 billion, or 56 percent of the total unobligated balance. Table 2 provides additional details on budgetary resources, obligations, unobligated balances, and expenditures of government-wide COVID-19 relief funds as of November 30, 2022.

**Table 2: COVID-19 Relief Unobligated Balances, as of Nov. 30, 2022**

Major spending area	Total budgetary resources (\$ in billions)	Total obligations (\$ in billions)	Unobligated Balance (\$ in billions)	Total expenditures (\$ in billions)
Pension Benefit Guaranty Corporation Fund <sup>a</sup> (Pension Benefit Guaranty Corporation)	52.7	8.9	43.8	7.8
Public Health and Social Services Emergency Fund (Department of Health and Human Services)	345.7	324.0	21.7	274.0
Supplemental Nutrition Assistance Programs (Department of Agriculture)	121.1	101.8	19.3	101.3
Other areas	4,079.5	4,011.6	67.9	3,692.8
<b>Total<sup>b</sup></b>	<b>4,599.0</b>	<b>4,446.3</b>	<b>152.7</b>	<b>4,075.9</b>

Source: GAO analysis of data from the Department of the Treasury and applicable agencies. | GAO-23-106556

<sup>a</sup>Under the American Rescue Plan Act of 2021, the Pension Benefit Guaranty Corporation will receive the necessary funding to provide payments to qualifying multiemployer plans as defined in this law to remain solvent through the end of plan year 2051. The requested amount will fund the Special Financial Assistance payments to qualifying plans and related administrative expenses.

<sup>b</sup>Because of rounding, amounts shown in columns may not sum to the totals.

We have ongoing work reviewing how selected states planned for, used, and managed COVID-19 relief funding across selected programs as well as any related challenges. In addition, we have ongoing work reviewing COVID-19 relief funding received by U.S. territories.

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# Appendix II: Improper Payments across the Federal Government

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## Estimating Improper Payments

Improper payments—payments that should not have been made or that were made in an incorrect amount—have consistently been a government-wide issue.<sup>1</sup> Since fiscal year 2003, federal executive agencies have been required by statute to report estimated improper payments for certain programs and activities.<sup>2</sup> For fiscal year 2022, 18 agencies reported improper payment estimates totaling about \$247 billion, based on improper payment estimates reported individually by 82 federal programs or activities on [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov).<sup>3</sup> Most of the estimate was concentrated in the following areas: the Department of Health and Human Services' (HHS) Medicaid (\$81 billion); HHS's Medicare—comprised of three programs—(\$47 billion);<sup>4</sup> and Small Business Administration's Paycheck Protection Program (\$29 billion).

Fiscal year 2022 total estimates represented a decrease of about \$34 billion from the prior fiscal year. However, the \$247 billion of reported improper payment estimates for fiscal year 2022 does not include estimates related to certain significant expenditures to fund response and recovery efforts for the COVID-19 pandemic, such as the Department of Labor's (DOL) Pandemic Unemployment Assistance (PUA) program.<sup>5</sup> In addition, our audit work has consistently shown that federal agencies

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<sup>1</sup>Improper payments include both overpayments and underpayments, any payments to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts under statutory, contractual, administrative, or any other legally applicable requirements. See 31 U.S.C. § 3351(4). When an executive agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be included in the improper payment estimate. 31 U.S.C. § 3352(c)(2). While not all improper payments are the result of fraud, all payments made as a result of fraudulent activities are considered to be improper payments. In addition, improper payment estimates are not intended to measure fraud in a particular program.

<sup>2</sup>Statutes that govern improper payment reporting define executive agency to mean a department, an agency, or an instrumentality in the executive branch of the U.S. government. 31 U.S.C. § 102.

<sup>3</sup>For purposes of this statement, the estimated improper payment rate (also referred to as the "improper payment rate") is the estimated amount of improper payments expressed as a percentage of program outlays in a given fiscal year. The website, [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov)—a U.S. government website managed by the Office of Management and Budget (OMB)—which contains, among other things, information about current and historical rates and amounts of estimated improper payments.

<sup>4</sup>Medicare is comprised of Fee-For-Service, Part C, and Part D programs.

<sup>5</sup>In November 2022, DOL reported that it was conducting additional analysis of the PUA improper payment estimates and would report on these estimates in fiscal year 2023.

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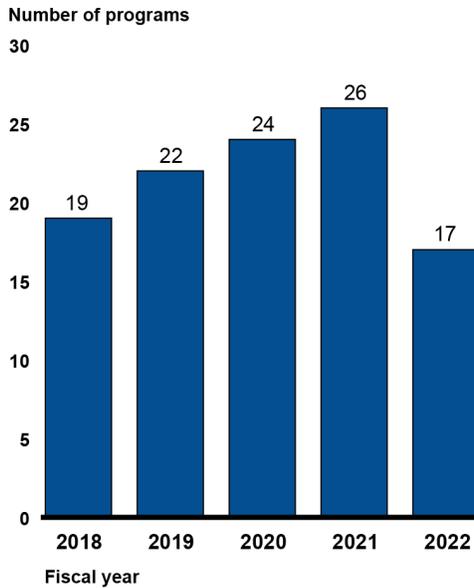
have not been reporting improper payment estimates for all risk-susceptible programs. Beyond PUA and other risk-susceptible COVID-19 relief programs, we also identified other programs, such as HHS's Temporary Assistance for Needy Families and U.S. Department of Agriculture's Supplemental Nutrition Assistance Program that did not report fiscal year 2022 estimated improper payment amounts.

For programs that are included for fiscal year 2022, federal agencies continue to report significant estimated improper payment amounts and rates. For fiscal year 2022, 18 programs had reported over \$1 billion in estimated improper payments, with 10 of these programs reporting over \$1 billion for each of the last 5 fiscal years. In addition, for fiscal year 2022, agencies reported estimated improper payment rates of 10 percent or greater for 17 programs and activities, accounting for about 59 percent of the government-wide total of reported estimated improper payments.<sup>6</sup> As shown in figure 5, the number of programs reporting an improper payment rate of at least 10 percent had been generally growing in the past 5 fiscal years but decreased from 26 programs and activities in fiscal year 2021 to 17 programs and activities this year.

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<sup>6</sup>Agencies are required to develop improper payment estimates and corrective action plans for any programs or activities identified as susceptible to significant improper payments by the agency administering the program or activity, OMB, or statute.

**Figure 5: Number of Programs Reporting Annual Improper Payment Rates Higher than 10 Percent for Fiscal Years 2018–2022**



Source: GAO. | GAO-23-106556

Note: The estimated improper payment rate is the estimated amount of improper payments expressed as a percentage of program outlays in a given fiscal year.

## Managing Improper Payments for Emergency Assistance Programs

During emergencies and crises 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. Effective management of improper payments helps facilitate the goals of emergency assistance programs by ensuring that taxpayer resources serve their intended purpose.

We also have ongoing work developing a framework for managing improper payments for emergency assistance programs. Specifically, the framework will incorporate standards for internal controls and financial and fraud risk management practices, as well as requirements and guidance from relevant laws and guidance on improper payments. This work will highlight aspects of managing improper payments that arise in the context of emergency assistance, which may necessitate special considerations.

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# Appendix III: Matters for Congressional Consideration

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In a March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, we recommended the following 10 matters for congressional consideration:<sup>1</sup>

- Congress should pass legislation requiring the Office of Management and Budget (OMB) to provide guidance for agencies to develop plans for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and requiring agencies to report these internal control plans to OMB and Congress. (Matter for Congressional Consideration 1)
- Congress should amend the Payment Integrity Information Act of 2019 to designate all new federal programs making more than \$100 million in payments in any one fiscal year as “susceptible to significant improper payments” for their initial years of operation. (Matter for Congressional Consideration 2)
- 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. (Matter for Congressional Consideration 3)
- Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud. (Matter for Congressional Consideration 4)
- Congress should clarify that (1) chief financial officers (CFO) at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information; and (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information, discussed in an existing matter for congressional consideration in our August 2020 report,<sup>2</sup> include internal controls over spending data and improper payment information. (Matter for Congressional Consideration 5)
- Congress should require agency CFOs to (1) submit a statement in agencies’ annual financial reports certifying the reliability of

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<sup>1</sup>GAO, *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).

<sup>2</sup>GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, [GAO-20-566](#) (Washington, D.C.: Aug. 6, 2020).

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improper payments risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate. (Matter for Congressional Consideration 6)

- Congress should consider legislation to require improper payment information required to be reported under the Payment Integrity Information Act of 2019 to be included in agencies' annual financial reports. (Matter for Congressional Consideration 7)
- Congress should amend the DATA Act to extend the previous requirement for agency inspectors general to review the completeness, timeliness, quality, and accuracy of their respective agency data submissions on a periodic basis. (Matter for Congressional Consideration 8)
- Congress should amend the DATA Act to clarify the responsibilities and authorities of OMB and Department of the Treasury for ensuring the quality of data available on USAspending.gov. (Matter for Congressional Consideration 9)
- 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. (Matter for Congressional Consideration 10)

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