FRAUD PREVENTION ALERT: Using Data Analytics to Compare Income Representations by Applicants Seeking Benefits from Multiple Federal Programs Could Have Prevented Hundreds of Millions of Dollars in Pandemic Fraud

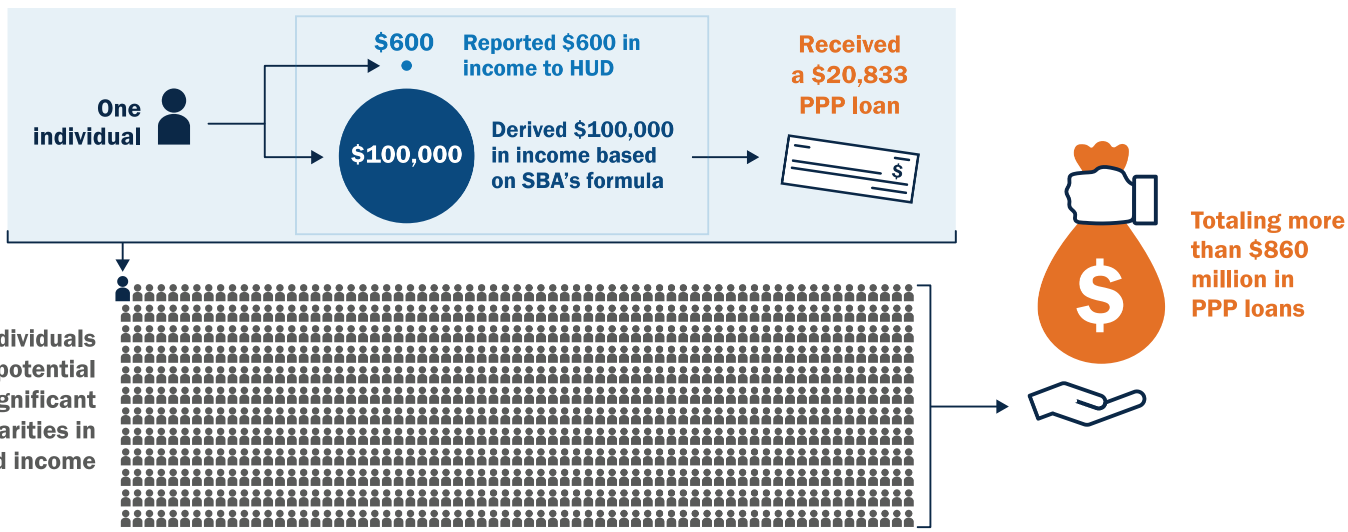
The Pandemic Response Accountability Committee (PRAC) continues to issue alerts to detail how potential fraud in federal pandemic programs has been identified using data analytics tools, and how these lessons learned can be used to prevent fraud in other government programs. In this alert, we detail how we used data analytics to identify suspicious Paycheck Protection Program (PPP) applications by comparing the derived income of sole proprietor PPP applicants with the incomes reported by individuals using the same personally identifiable information as the PPP sole proprietor applicants to obtain housing assistance from the Department of Housing and Urban Development (HUD).

Specifically, as shown by the case examples in the text box on this page, our data analysts found evidence of substantial disparities between the derived income by sole proprietor applicants seeking Small Business Administration (SBA) PPP loans as compared to the income reported to HUD by individuals using the same personally identifying information to obtain housing assistance that was available for individuals with limited incomes.[1]

Case Examples

1. A sole proprietor applicant received two first draw* PPP loans from SBA totaling roughly $40,000, equating to an annual income of $190,000 based on SBA's defined PPP loan calculation. An applicant with the same personally identifying information reported an annual income of $15,000 to HUD. This same individual also claimed to be a CEO and owner of multiple other companies of varying business types receiving over $2.5 million in PPP and COVID-19 Economic Injury Disaster Loan (EIDL) pandemic funding.
2. A sole proprietor applicant received a PPP loan of $20,833 from SBA, equating to an annual income of $100,000 based on SBA's defined PPP loan calculation. An applicant with the same personally identifying information reported an annual income of $600 to HUD. This same individual also claimed to be the owner of multiple other businesses of varying types receiving almost $900,000 in PPP and COVID-19 EIDL pandemic funding.

*Note: per SBA's guidance, First Draw PPP loans could be used to help fund payroll costs, rent, utilities, etc. and eligible borrowers could apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. The PRAC used First Draw PPP loans to derive income for sole proprietor applicants.



1 While many types of businesses were eligible to receive a PPP loan, our analysis focused on sole proprietors or equivalent, including Sole Proprietorship, Independent Contractors, Self-employed Individuals, and Single Member LLC. Our analysis only considered these businesses as their annual income could be derived based on the loan amount using an SBA formula.

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Relying on our subject matter expertise, we used iterative, multi-tiered data analytics techniques to flag over 40,000 instances where PPP applicants may have significantly misrepresented their incomes when applying for more than $860M in PPP loans.[2] We considered significant misrepresentations to be those instances where the derived income for PPP applicants was at least 10 times greater than the income reported to HUD by housing assistance recipients who used the same personally identifiable information as the PPP applicants.[3] These discrepancies could be due to fraud by the same program beneficiaries who misrepresented income amounts to SBA and HUD, or it could be the result of identity theft related to either or both programs. In some instances, the discrepancies could be the result of data entry errors, or data timing issues related to when applications were submitted to each program.

We are unable to estimate the potential financial impact to the HUD housing assistance programs because, while we have access to applicant information, we do not have access to payment data.

Among the fraud identified through the PRAC's proactive cross-agency analysis of applicant income information, there was a large-scale multi-subject criminal conspiracy. The PRAC worked with our partner law enforcement agencies to investigate these anomalies and identified, in this one case alone, 100 fraudulent PPP loan applications, 70 of which were funded, and the use of over 100 bank accounts used to facilitate the scheme. This case resulted in multiple federal criminal indictments, all of which resulted in convictions, and restitution to the SBA of over $1.6 million. The two main targets in this case each received 33 months in prison followed by three years' supervised probation.

Programs Involved

The now-concluded Paycheck Protection Program (PPP) provided SBA-backed loans to businesses to keep their workforce employed during the COVID-19 crisis. HUD's ongoing Housing Choice Voucher (HCV) Program, which did not receive pandemic funding, is the federal government's major program for aiding very-low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Similarly, HUD's Public Housing (Low-Rent) Program administers federal aid to help eligible low-income families, the elderly, and persons with disabilities to live in decent and safe housing.

HUD uses the Enterprise Income Verification (EIV) system to ensure an applicant is income eligible.[4] However, during the pandemic the use of EIV was temporarily waived. During this waiver period, a fraudster could have improperly obtained HUD housing benefits, effectively denying benefits to those who needed it most. This is especially problematic as many HUD-funded housing authorities have long waitlists of individuals who genuinely need assistance. Similarly, under this potential fraud scheme individuals may have deceitfully secured PPP loans that should have gone to those who legitimately qualified.

We hope that by sharing this potential fraud scheme with the public and the oversight community we can alert (1) Offices of Inspectors General (OIGs) to be on the lookout for similar cross-program schemes, (2) program implementers to build better internal controls and checks upfront to mitigate this risk, and (3) policymakers to consider issues related to cross-agency risks including income verification.

2 Refer to the "Analysis and Implications" section below on how we derived income for PPP sole proprietor loan applicants.

3 The participant counts and payment amounts for potential income misrepresentation are higher when we lowered the ratio threshold to five times (5X) or two times (2X).

4 The EIV system is derived from computer matching programs initiated by HUD with the Social Security Administration (SSA) and the U.S. Department of Health and Human Services (HHS), for all program participants with valid personal identifying information and Social Security number reported on the form HUD-50058. The match includes the following databases: SSA Benefits, SSA Death Master File, and the HHS National Directory of New Hires which includes quarterly unemployment insurance, quarterly wages, and monthly new hires.

Our Analysis: What We Did, Why We Did It, and Implications Revealed

The PRAC's Responsibilities

As part of our independent oversight of the $5 trillion in COVID-19 relief and response programs, we conduct in-depth data analysis across multiple federal programs to identify potential fraud, waste, and abuse, and to help prevent misuse of future funds.

Our Pandemic Analytics Center of Excellence (PACE) has the unique ability to collect applicant and beneficiary data across agencies and benefits programs. We conduct data matching—linking data records in two or more data sets—to help identify unique recipients applying to multiple programs. The cross-cutting nature of our work can also reveal anomalies in applicants' data that may raise red flags about fraud, waste, or abuse in programs not involving pandemic relief.

Program Background

To be eligible for the HCV and Low-Rent HUD programs, HUD uses the EIV system to ensure an applicant is income eligible. To determine how much PPP money SBA awarded to a business operating as a sole proprietor or equivalent, SBA used a formula based on the borrower's reported profit for the prior year.[5]

Analysis and Implications

Our data scientists compared data pulled from March 2020 to December 2021 to identify individuals who received PPP loans as sole proprietors and HUD's HCV or Low-Rent Program benefits. Using the SBA formula for determining the PPP loan amounts for sole proprietors based on reported profits, we derived a recipient's annual income. HUD's HCV or Low-Rent Program participants are required to report their income on an annual basis. Comparing these amounts, we found instances when a sole-proprietor's income level for the PPP loan was inconsistent with the income reported to HUD.

We continue to share our work with the HUD and SBA Offices of Inspectors General to help flag potential cross-agency and/or cross-program risks.

5 SBA updated guidance on PPP applications in March 2021. Before March 2021, businesses reported net profit in the PPP applications, and after March 2021, SBA required applicants to provide gross profit.

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PandemicOversight.gov

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Report Fraud, Waste, Abuse, or Misconduct:

To report allegations of fraud, waste, abuse, or misconduct regarding pandemic relief funds or programs, please go to the PRAC website at PandemicOversight.gov.

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