Prosecutors Struggle to Catch Up to a Tidal Wave of Pandemic Fraud

The Small Business Administration's loan and grant Covid-relief program has — even after the cases of mob and hundreds of prosecutions — they're still just getting started.

By Jesse A. Eisenbalot
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In the middle of the pandemic, the government gave unemployment benefits to self-employed people, including those who had money in "Social" that turned out to be front cards. A good people who were on the government's "No Fly For Life" A gave loans to 242 people who had their name was "No."

As the coronavirus shuttered businesses and forced people out of work, the government rolled out a sweeping set of programs to shore up businesses and backstop the newly unemployed and falling the economy. That included $1.5 trillion that former President Donald J. Trump approved in 2020, followed by a $1.9 billion package signed into law in 2021 by President Biden.

But those dollars came with few strings and minimal oversight. The result: one of the largest frauds in American history, with billions of dollars going to people who, in many instances, simply saw an unexpected windfall of free criminal activity as YouTube.

Now, prosecutors are trying to catch up.

There are criminal Jill people working at prosecutors fraud cases in the Justice Department, the Inspector General's office in the F.B.I., the Secret Service, the Postal Inspector Service and the Internal Revenue Service.

The federal government has already charged 1,500 people with defrauding pandemic aid programs, and more than 450 people have pleaded guilty or been convicted. Prosecutors have seized the ownership of and made that investigation still have to clean.

Agents in the inspector general's office at the Labor Department have 20,000 investigations going. About 30 agents in a Small Business Administration office are sorting through two million potentially fraudulent loan applications.

Officials already concede that the sheer number of cases means that many fraudsters will never be caught or prosecuted. Still, they are Biden-signed bills extending the statute of limitations for some pandemic-related fraud to 10 years from this, a move aimed at giving the government more time to pursue cases. "My message to those cheats out there is this: You can't hide. We're coming to find you," Mr. Biden said during the signing at the White House.

Investigators say they hope the extra time will allow them to ensure that those who defrauded the government are ultimately punished, retrieving a deterrent that had vanished in a flood of lies and money.

President Biden signed bills extending the statute of limitations for some pandemic-related fraud to 10 years from this. Doug Mills/The New York Times

"There are years and years and years of work ahead of us," said Kevin Chambers, the Justice Department's chief pandemic prosecutor. "I'm confident that we'll be seeing cases into the last day of these 10 years."

The federal government provided about $3 trillion in relief money in three separate legislative packages — an enormous sum that is credited with reducing poverty and saving the country from a prolonged, painful recession.

But investigators say that spending, in its haste to get money out the door, devised of drive products with the same flaw: relying on the honor system.

For example, an expanded unemployment benefit gave workers an extra $600 per week in federal pribers bonds on top of what they received from their state governments. Most of the money in that government has administered by states, which often had lower rules around qualifying. Applicants did not need to provide proof they had lost income because of Covid-19, they simply had to sweat it was true.

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A similar we'll-take-your-word-for-it approach was used in two loan programs run by the Small Business Administration.

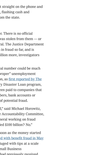
Millions of Americans sought unemployment benefits during the height of the pandemic. Victor Moriyama/The New York Times

They were the Paycheck Protection Program, in which the government guaranteed loans to businesses, and the Economic Injury Disaster Loan program, in which the government itself gave out loans and smaller advance grants that did not have to be repaid. In both, the government treated businesses to self-certify that they met key requirements.

Both the Labor Department and the Small Business Administration said they tried to screen those claims — and in the case of the Paycheck Protection Program, tens of applications that did not make sense. But that was not enough.

In some cases, the programs invented schemes that were centrally vulnerable to fraud. In the Paycheck Protection program, it was the requirement that lenders submit applications on behalf of individual gov If loans for 10 consecutive business months, using the email address of a burrito shop.

In the Economic Injury Disaster Loan program, scam banks were supposed to help with the screening, since in theory they were dealing with customers they already knew. But that left out many small businesses, and the government allowed online lenders to enter the program. Many of those lenders had no experience with lending, and some of those "Internet" lenders appeared less diligent about vetting fraud.



Jeffrey Chinn and Brandon Lee, left, pleaded guilty to charges that they used fraudulent unemployment claims to buy a Lamborghini Huracán, a Porsche 911 and a Mercedes-Benz S-Class. Courtesy of the Department of Justice

In another case, a mother and daughter in Westchester County, N.Y., stand accused of running fraud ring a franchise — helping people who were ineligible for loans — in order to get loans from the Economic Injury Disaster program.

Andrew Ayers admitted one client to tell the government she ran a baking business from home, although she was not a baker, prosecutors said.

"You bake," Mr. Ayers texted to the client, adding that laugh-crying emojis, according to charging documents.

"Lol," the client wrote back.

The scheme, prosecutors said, was intended to take advantage of the Small Business Administration's advance grant program, which provided applicants up to $10,000 up front while the agency processed their loan applications. Ms. Ayers, 27, and her mom, reported, in many cases the applicant could still keep the grant.

Prosecutors said that Ms. Ayers's daughter, Alicia Ayers, texted another client that the small size of the grants means they were unlikely to be punished. "Ok it not enough for jail time lol."

The government charged both Ayers with wire fraud. They have pleaded not guilty. Their lawyers did not respond to requests for comment.

In some corners of the internet, schemers to defraud were discussed openly on Telegram. Some Telegram users offered to sell or trade help for a cut of the proceeds. Some used the money on motorcycles, the mortgage bills or car payments. But many seemed to act out of opportunism and spite, splurging on crabs, a mansion, a $50,000 Rolex or $17,000 Pokémon trading card.

Federal prosecutors charged Jeffrey Chinn and Brandon Lee with using fraudulent claims to the Small Business Administration to buy a Lamborghini Huracán, a Porsche 911 and a Mercedes-Benz S-Class. Courtesy of the Department of Justice

Unsuth Gadamsetty bought the Pokémon card in January 2021, after receiving $10,000 in Covid-relief unemployment benefits from his nonexistent business. He pleaded guilty to defrauding the loan program in October, hearing the U.S. government responsible for selling the card.

Pandemic fraud became such an open secret that it caused to be mocked on Twitter. In a parody account, Dan Ariely, a behavioral scientist at Duke University, Ariely, who pandemic fraud, posted a mock video on YouTube. Stopping to detail about how he had gotten rich by defrauding Covid unemployment claims. His song was called "$12k" after California's Employment Development Department, which paid the benefits.

"I just wave 10 cards hard in one day Get straight on the phone and tell them I'm a farmer Unemployment, I'm a farmer Cash and envelopes with grandmothers Gotta feed the family."

"Unemployment so sweet," he said.

All three of these programs are now over. There is no official estimate of how much fraud there was in the Small Business — or from pandemic-relief programs in general. The Labor Department has charged people who stood ill fortune in fraud so far, and is investigating other cases involving 20 billion more, investigators said.

But other experts have suggested the real number could be much higher: One official said the total of "improper" unemployment payments could be more than $163 billion, or five expected by The Washington Post. In the Economic Injury Disaster Loan program, a watchdog found that $20 billion had been paid to companies that had at least one employee convicted of fraud, bankruptcy or other data as other applicants — a sign of potential fraud.

"It's clear there's tens of billions in fraud," said Michael Horowitz, the chairman of the Pandemic Response Accountability Committee, which includes 21 agency inspectors general working on fraud cases. "Would it surprise me if it exceeded $100 billion? No."

The effort to catch fraudsters began as soon as the money started flowing. Prosecutors charged the first pandemic fraudsters in April 2020. But investigators were quickly dropped with the gut at a crime they had never dealt with before. The Small Business Administration's fraud hotline — which had previously received 900 calls a year — got 100,000 in the first year of the pandemic. The Labor Department's inspector general's office received 400 tips a day, mostly from consumers to check for potential identity theft. At the Labor Department, the inspector general's office has 30,000 cases involving unemployment fraud, a 1,000-percent increase from prepandemic levels.

But prosecutors face a key disadvantage: While fraud takes minutes, investigations take months and prosecutions take even longer.

Mr. Haines, who detailed his jobless benefit scheme on YouTube, was arrested in September 2020, when Las Vegas police found other people's unemployment benefit cards in his car. Mr. Haines pleaded guilty to mail fraud last month. His lawyers declined to comment.

Federal prosecutors charged Jesse Haines with using fraudulent unemployment benefit cards to buy a Lamborghini Huracán, a Porsche 911 and a Mercedes-Benz S-Class. Courtesy of the Department of Justice

Brandon Wilson, the Small Business Administration's inspector general, said his office has found its cases involving large thefts, career criminals or ringleaders who organized a fraud operation.

"Only about 30 working field agents, right? So how do I take one of my agents off of a $20 million case to work a $10,000 case?" said Mr. Wilson, who joined the agency in May. "Because they will not do. Mike, the work is the same."

That has allowed many individuals who took advantage of government programs to go unpunished. Despite ample evidence of people fraudulently obtaining $10,000 advance grants, Mr. Ayers's office has not sought charges for cases involving small or single grants, lately alleviated. It would cost more than $10,000 just to prosecute them.

Some people who received 1.5 million loans totaling about $200 billion, on top of $27 billion in grants that did not have to be repaid, according to the Small Business Administration. Many of the allegations of fraud in the grants program date to the first weeks of the program, when the government was trying to get money out the door quickly with $17 billion in just over 250 days. In the program, fraud was easy to pull off, according to a government watchdog, which cited numerous loans given to businesses that were ineligible for funding.

The agency has recently limited his agents to working 10 cases at a time, calling them "Ferris Bueller yourself. I have to protect you from yourself."

In some cases, lawyers for those charged with committing pandemic fraud have sought to argue that their clients should be judged less harshly for stealing because the government made it so easy.

The government "was handing out money with no checks, and a lot of people took advantage of that," Andrew I. Rant, a lawyer for the Pennsylvania Richard Scrivanich, said The New York Times in November.

"It's a heavy lung," he added. "Richard Scrivanich felt into that." Mr. Scrivanich was sentenced to 27 years in prison for participating in a ring that sought $20 million in pandemic loans.

Richard Scrivanich was sentenced to a sixteen-to-life term for Covid-19 relief fraud. Courtesy of the Department of Justice

In the court of Mr. Underwood, the Pakistani card buyer, his lawyers argued to March that a judge should be lenient in deciding his sentence because the fraud had taken hardly any time at all.

"It is an extremely significant planning, of limited duration," said Brian Jarrett, who was Mr. Gadamsetty's lawyer at the time.

That did not work.

Judge Dudley H. Bowen Jr. of U.S. District Court sentenced Mr. Gadamsetty to three years in prison, more than prosecutors had asked for, "determination to the watch that this is the government's money," according to a transcript of the sentencing.

Now, Mr. Gadamsetty is appealing, with a new lawyer and a new argument. Demonstrate that he was not a fraudster, but that the fraudulent payments were proper.

"There's no way to deter someone from doing it, when there's no way they can do it any longer," said the lawyer, Jessie Rabin.

Rabin administration officials say they are trying to prepare for the next disaster, seeking to build a system that would quickly deny applications for signs of identity theft.

"Criminal syndicates are going to look for weak links at moments of crisis in attack," said Gene Sperling, the White House coordinator of Covid-relief in the Biden administration. "We want to build a continuing system that would detect identity theft quickly in applications for aid. "The right time to start building a stronger systems to detect identity theft is now, not in the middle of the next serious crisis."

In the meantime, the arrests go on.

Last week, prosecutors charged a conventional officer at a federal agency with fraudulently obtaining loans from the Paycheck Program, saying she had received two loans totaling $20,200 in 2020 and 2021. The officer, Harwinia Hopkins, has pleaded not guilty. Her lawyer did not respond to a request for comment.

"You can't have a system where crime pays" said Mr. Horowitz, of the Federal Pandemic Response Accountability Committee. "It undermines the entire system of justice. It undermes people's faith in government. It undermines our economy. You can't have that."

Jesse Eisenbalot contributed reporting.

Correction: Aug. 30, 2022

Because of an editing error, an earlier version of this article mistakenly the given name of Unsuth Gadamsetty's lawyer. He is Jessie Rabin, not Dennis.

Correction: Aug. 30, 2022

An earlier version of this article mistakenly the name of a pandemic-relief program. It is the Paycheck Protection Program, not the Paycheck Protection Plan.

https://nytimes.com/2022/08/29/business/pandemic-fraud.html

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