Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.16, No.4, 2025

Diagnostic Analysis of Covid-19 Pandemic Relief Programs and the Incidence of Fraud Saga in the United States of America

[1]Aderemi Adedokun, PhD,
[1]Associate Professor of Accounting, Yavapai College, Arizona, USA.
E-mail: adedokun@gmail.com

[*2]Rotimi Adetayo Adedokun, PhD, FCA,
[*2]Associate Professor of Accounting, Odessa College, Texas, USA.
Email: adedorotimi@gmail.com

Abstract
Covid-19 pandemic had come and gone but the post-disaster analysis has remained a major contemporary issue in the minds of scholars globally. The current study therefore conducted a diagnostic analysis of Covid-19 pandemic relief programs and the incidence of fraud that has been described as monumental ever in the history of the United States of America. The study adopted a literature review methodology to unravel what went wrong that made both local and cross-border fraudsters had a great deal of the various pandemic relief funds. Various schemes adopted by the fraudsters were uncovered and the following recommendations were made to prevent re-occurrence during any disaster emergency relief disbursements in future: *swift action by the FBI in cases of PPP loan fraud is essential to protect economic stability, ensure justice, deter future fraud, preserve evidence, and maintain public trust in government* programs.
Keywords: Covid-19 Relief Programs, Paychecks Protection Program, Covid-19 EIDL, Fraud, Internal Controls.
DOI: 10.7176/RJFA/16-4-01
Publication date: May 30th 2025

1. Introduction

Attention of researchers, professionals, academics and the likes have been drawn to the issue of fraud that ravaged the various pandemic relief programs issued out by the United States government in rapid response to the consequential hardship inflicted on the American populace. In spite of the robust control mechanism put in place by the Federal Government to prevent the occurrence of frauds and improper payments in the administration and disbursement of the various relief funds, what was regarded as monumental fraud according to GAO (2023) was perpetrated in the history of the United States of America.

Before diving deep into the understanding how the fraud emerged in the global crisis, there is the need to reflect the historical perspective of the crisis itself. In the late 2019, doctors in the United States started to treat hundreds of cases diagnosed as pneumonia with unverified origin. As the year 2019 drew to an end, they began to diagnose cases of virus. By the end of January 2020, the first case of Coronavirus has surfaced in the United States. On February 29th, the virus took the life of an American citizen for the first time (Taylor, 2021).

There was an exponential spike in the unforeseen rates from February 29th, 2020 and subsequently the country and other parts of the world was hard-hit by the pandemic. The World Health Organization (WHO) declared a global pandemic across the globe in March 2020. Following the WHO's global pandemic declaration, the US followed with an emergency declaration on March 13th, 2020. The United States emergency declaration marked the commencement of a period of financial uncertainty and instability for many businesses. Covid-19 variants continue to threaten the existence of the country through the fall of 2021 (LaBarge, 2021).

The United States Congress established four (4) programs to support small businesses during the pandemic – namely; Paycheck Protection Program (PPP), COVD-19 Economic Injury Disaster Loan (COVID-19 EIDL), Restaurant Revitalization Fund (RRF) and Shattered Venue Operators Grant (SVOG) in 2021 (GAO, 2023). In swift response to the hardship condition of the people, Congress made provision for approximately $4.6 trillion to individuals, businesses, state and local governments so that the impact of COVID-19 pandemic could be mitigated on the nation's health system and economy. In order to ensure that the funds achieved the desired goals, government had hitherto put in place some preventive measures in conformity with Payment Integrity Information Act (PIIA). The provisions of PIIA require that all the Federal Agencies administering the funds should develop and implement internal control system that prevent and detect fraud and other improper payments (Garret & Natalie, 2024).

Further, PIIA also requires that the agencies implement the fraud control principles and leading practices contained in the Framework for Managing Fraud Risks in Federal Programs issued by Government Accountability Office in 2015. The Fraud Risk Framework (FRF) according to GAO (2015) requires that each of the government offices handling programs should ensure they perform timely program risk assessments, maximizing the use of data analytics to prevent and identify fraud and establish an office within each agency saddled with responsibility of leading its anti-fraud efforts. It is equally incumbent on the agencies to determine the risk of significant improper payments associated with each program, estimate the amount of improper payments for each risk-susceptible program and report to the public those estimates and other improper payments information.

In spite of the various preventive efforts and enabling laws to proactively prevent incidence of frauds and risk of improper payments in the administration of emergency funds, COVID-19 pandemic relief funds have been engulfed with the highest level of fraud and improper payment in the history of the United States of America. Studies have shown that over $80billion of the approved $800billion approved for Unemployment Insurance were submerged in fraudulent activities of both the local and cross-border fraudsters.

It is therefore not unclear on how this humongous amount of hard-earned income of the tax-payers ended up in the hands of the disgruntled elements of economic sabotage despite the robust preventive measures put in place by the US government.

This study is therefore poised to carry out a diagnostic analysis of the COVID-19 pandemic relief programs and the incidence of fraud saga that engulfed the funds with a view to identifying the areas of weakness in the internal controls.

2. Literature Review

Extant Literature revealed that COVID-19 pandemic had a significant effect on the nation and its economy. Stay-at-home orders, social distancing requirements, and reduced consumer demand early in the pandemic caused both temporary and permanent business closures, particularly among small businesses. To help support small businesses, in March 2020, Congress passed the CARES Act that, among other things, provided funds for two new Small Business Administration (SBA) pandemic relief programs. Specifically, it created Paychecks Protection Program (PPP), which was authorized under SBA's existing 7(a) small business lending program. The 7(a) loan guarantee program provides small businesses access to capital that they would not be able to ordinarily access in the competitive market. It also established a COVID-19 EIDL program partially based on an existing SBA-administered program providing EIDL disaster loans. EIDL, which is part of SBA's Disaster Loan Program, provides low-interest loans to help borrowers, that is, small businesses and non-profit organizations in a disaster area to enable them meet obligations or pay ordinary and necessary operating expenses. However, both the PPP and COVID-19 EIDL contained programmatic elements that were new compared to the pre-pandemic programs.

CARES Act

Coronavirus Aid, Relief and Economic Security Act popularly known as CARES Act was the first piece of legislation made in order to respond to the hardship impact of Covid-19 by the US government in March, 2020. In this Act, several objectives were highlighted, the sole focus of this study is to beam our search light on the benefits provided to the individuals and small businesses. Our motivation for focusing on these areas is borne out of the fact that they impacted directly on the majority of American populace and as such gave room for an unprecedented fraud to be perpetrated ever in the history of the United States of America (LaBarge, 2021).
We prioritize CARES Act as the most relevant Act to this study because of its direct link to individuals and small businesses in the US in relation to government pandemic emergency relief programs. The table below highlights the key benefit programs in the CARES Act to the individuals and small businesses.

Table 1: Outlines of the key benefit programs provided by the CARES Act.

Form of Aid	Abbreviation	Active Dates	Targeted Recipients	Description
Stimulus Checks	-	In 3 Rounds: April, 2020 December, 2020 March, 2021	Individuals	Moneys were directly paid to Americans to offset pandemic-driven hardship
Expanded Unemployment Benefits	-	March 27, 2020 Dec. 31, 2020 (Later reviewed thru American Rescue Plan).	Individuals	An extra $600 dollars a week on top of other unemployment benefits received.
Paychecks Protection Program	PPP	April 3, 2020 May 31, 2021	Small Businesses	Loan equal to 2.5 times a biz average monthly payroll or a maximum of $10m; eligible for loan forgiveness if specific rules are followed
Economic Injury Disaster Loan	EIDL	These loans have existed but advances were only issued until funds allocated from CARES Act depleted	Small Businesses	Loans that existed before CARES Act but the act included funding for more loans and EIDL advances of up to 10,000 dollars; these advances are essentially grants and do not need to be paid back.

Source: Snell, 2020 as cited in (LaBarge, 2021).

Operationalizing the Concept of Fraud

In this study, we operationalize the concept of fraud for clarification for the purpose of our research. According to the Federal Bureau of Investigation (2020), fraud is defined as the intentional perversion of the truth for the purpose of inducing another person or other entity in reliance upon it to part with something of value or surrender a legal right. Operationalizing this concept in our research, we carved out "something of value" as used in the definition of FBI to imply the various aid programs issued by the government as highlighted in the table 1 above. While "Entity" from the definition was proxied for the US Federal Government.

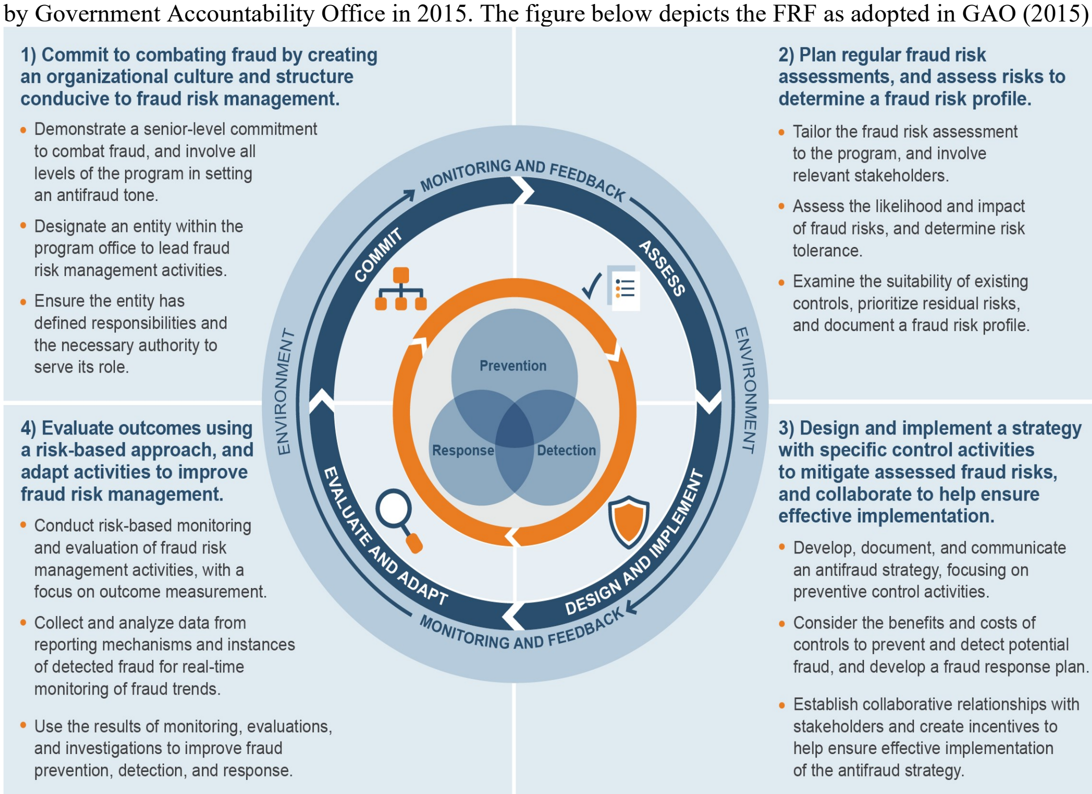
Paychecks Protection Program (PPP)

PPP guaranteed over $800 billion to small businesses and nonprofits, referred to collectively as "small businesses," to help support payroll costs, rent, utilities and other eligible operating costs during the pandemic. PPP low-interest loans were fully SBA-guaranteed and made to recipients through a network of participating lenders under the program rules set by Treasury and SBA's Office of Capital Access. Under certain circumstances, recipients were eligible for full loan forgiveness. For example, to be eligible for full forgiveness, at least 60 percent of the loan had to be used for payroll costs, with the remaining amount used for eligible non-payroll costs, such as covered mortgage interest, rent, and utility payments. SBA originally required borrowers to spend at least 75 percent of forgivable expenses on payroll costs, but this requirement was modified by later legislation (Paycheck Protection Program Flexibility Act of 2020, Pub. L. No. 116-142, § 3(b)(2)(B), 134 Stat. 641, 642 (2020).

COVID-19 Economic Injury Disaster Loan (Covid-19 EIDL)

COVID-19 EIDL provided over $355 billion to businesses from March 2020 to December 2021 to assist their recovery from the economic effects of the pandemic. SBA managed the COVID-19 EIDL program directly, initially led by its Office of Disaster Assistance and later by the Office of Capital Access. In July 2021, SBA transitioned administration of COVID-19 EIDL from the Office of Disaster Assistance to the Office of Capital Access. This program did not rely on a network of lenders to distribute pandemic relief funds. The program included two types of funding: loans and grants, otherwise known as advances. Advances—new programmatic elements in the COVID-19 EIDL—include EIDL advances (in 2020) and targeted advances and supplemental targeted advances (in 2021) for applicants located in low-income communities and meeting other eligibility requirements. Recipients could use these low-interest loans and advances as working capital to cover operating expenses to alleviate economic injury caused by the pandemic (GAO, 2023).

Theoretical Framework for the study
We identified the underpinning theoretical framework of Fraud Risk Framework (FRF) for this study as issued by Government Accountability Office in 2015. The figure below depicts the FRF as adopted in GAO (2015)



Source: GAO. | GAO-23-105331
Adapted from GAO (2023)

Management of Fraud Risk
Fraud Reduction and Data Analytics Act of 2015 mandated additional controls for reducing the risk of a particular subset of improper payments. The Act provided thar agencies must establish a fraud risk management framework that will incorporate the standards and leading practices established by the Government Accountability Office (Garrett & Natalie, 2024). In consonance with the study underpinning theoretical framework in figure 1 above, the framework from managing fraud risks in Federal emergency relief programs such Pandemic Assistance Programs, agencies are mandated to:
i. Create an organizational structure and culture conducive to fraud risk management. Specifically, each agency should designate an entity to lead fraud risk management activities and ensure it has the resources for doing so.
ii. Plan regular fraud risk assessments and assess risks to determine fraud risk profiles. The assessments should be tailored to each program and consider the suitability of the existing controls.
iii. Design and implement strategies with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation
iv. Evaluate outcomes using a risk-based approach and adapt activities to improve fraud risk management. Agencies are required to collect and analyze data on potential and detected fraud and the results to improve fraud management activities.

Discussion of Research Findings.
The study discovered the following findings on how frauds were perpetrated during the pandemic. Our findings are therefore in alignment with the discoveries of the analysis carried out by GOA (2023) while analyzing the documents for Department of Justice in relation to the various cases charged for Pandemic Relief Programs. The

analysis of several cases charged by DOJ demonstrate how frauds were perpetrated through misrepresentations and deliberate exploitation of PPP and COVID-19 EIDL. These cases involved both businesses and individuals with schematic deliberate intention to defraud government.
The analysis of PPP and COVID-19 EIDL cases shows ineligible, non-operating businesses applied for and obtained program funds or were alleged to have done so. Such businesses include shell companies, which have no employees or operations, and fictitious entities. Of the 330 PPP and COVID-19 EIDL cases, 221 (or about 67 percent) involved or allegedly involved non-operating businesses. Specifically, of the 989 businesses identified in court documents, approximately 72 percent were identified as or alleged to be shell companies or fictitious entities, which would make them ordinarily ineligible for PPP and COVID-19 EIDL funding. Among the cases involving shell companies or fictitious entities, those charged or, for the ongoing cases, are alleged to have obtained approximately $388.9 million in PPP and COVID-19 EIDL funds.

Fraudulent Activities involving Shell or Fictitious Businesses

Fraudsters using Multiple Ineligible Businesses to receive Pandemic Relief Funds

A fraudster submitted four Paycheck Protection Program (PPP) and 10 COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) applications for 10 different Businesses (GAO, 2023). Those businesses included one legitimate business, eight shell companies that had no operations or employees, and one fictitious entity. The applications were used to steal personally identifiable information and falsified monthly payroll documents and tax forms for the businesses. The fraudster received $109,552 in PPP and $642,800 in COVID-19 EIDL funds based on these submissions. At the same time, the fraudster applied for a state pandemic-related relief grant and received $70,000 through that program. The fraudster misused pandemic relief funds for personal expenses including a diamond ring, luxury hotel stays, living expenses, and payments for personal credit cards and student loans. The fraudster pled guilty and was sentenced to 4 years in prison and 3 years of supervised release. The fraudster was also ordered to pay $1,998,097 in restitution.

Fraudsters Misrepresented Eligibility to Receive Pandemic Relief Funds.

Two fraudsters, an owner of a legitimate automotive business and an employee of the business, applied for a Paycheck Protection Program (PPP) loan certifying no prior felony charges. However, at the time the owner was facing charges of wire fraud and money laundering. The fraudsters received $210,000 in PPP funds based on the application. In addition to misrepresenting eligibility, the fraudsters misused loan proceeds. While agreeing on the application to use PPP funds for payroll, they paid past-due truck payments and purchased various truck parts. Both pled guilty. The owner was sentenced to 3 years in prison and 3 years of supervised release. The employee was sentenced to 1 year and a day in prison and 3 years of supervised release. The employee was ordered to pay $220,500 in restitution for the PPP loan application fraud.

Fraudulent Activities involving Individuals

This study has also revealed that in the 330 fraud cases analyzed by GAO (2023) showed that individuals used or were alleged to have used various and multiple types of falsehoods to obtain PPP and COVID-19 EIDL funds. This involved the falsification of documents, such as tax forms, payroll documentation, and bank statements to apply for funds. Additionally, allegations involving false information about other elements of PPP and COVID-19 EIDL loan applications, such as employee counts and payroll amounts, were prevalent in DOJ cases.

Our findings show that that 227 of the 330 PPP and COVID-19 EIDL cases (or 69 percent) involved falsification or alleged falsification of tax or other documents, such as payroll documentation or bank statements. Specifically, 190 (or 58 percent) of the cases involved allegations of tax document falsification, showing that tax forms may have been commonly forged or altered. Further, 240 cases (or 73 percent) involved schemes in which individuals created fictitious employees and inflated employee counts to obtain more funds or were alleged to have done so. The cases also involved allegations of various types of identity theft. This involves the theft of personally identifiable and business information or the use of synthetic identities to obtain PPP and COVID-19 EIDL funds.

Our analysis showed that 63 of the 330 PPP and COVID-19 EIDL cases (or 19 percent) involved allegations of theft of personally identifiable information and 17 cases (or 5 percent) involved allegations of using another business's information to obtain PPP or COVID-19 EIDL funds. Additionally, we identified 50 cases (or 15 percent) that involved allegations of individuals stealing and wrongfully using Social Security numbers (SSN) to apply for PPP and COVID-19 EIDL funds. Another 11 cases (or 3 percent) involved allegations of synthetic identity fraud where individuals fabricated an identity by using fictitious information in combination with stolen information such as an SSN.

Fraudster used stolen personal information, shell companies, and false attestation to obtain pandemic assistance

A fraudster applied for five Paycheck Protection Program (PPP) loans for three different shell companies that had no operations or employees. On one application, the fraudster used a deceased victim's name to apply for a PPP loan for the shell company. On another PPP application, the fraudster created a synthetic identity by combining his name with his father's Social Security number (SSN) instead of using his own SSN. On one of the applications, the fraudster certified no prior felony charges, when he had charges of tampering with a government record. The fraudster also falsely represented that the businesses had multiple employees, when they had none. The fraudster misused the PPP funds to purchase a 2020 Ford F-350 truck, a 2019 Lamborghini Urus, and a Rolex watch, among other ineligible expenses. In total, the fraudster applied for $4,618,111 and received $1,689,952 in PPP funds. After pleading guilty, the fraudster was sentenced to 9 years and 2 months in prison and 3 years of supervised release. The fraudster was also ordered to pay $1,689,952 in restitution.

Fraudulent Activities involving Multiple Individual's Coordinated Efforts to defraud Programs some cases involved allegations of multiple individuals conspiring to fraudulently apply for PPP and COVID-19 EIDL funds. Specifically, in 79 of 330 PPP and COVID-19 EIDL cases (or 24 percent) two or more individuals were charged. Further, 11 cases involved charges against more than five individuals, with the highest number of individuals charged in a case being 18. Our analysis found that 90 of 330 cases (or 27 percent) involved conspiracy-related charges. This indicates a potentially significant role of organized activity in PPP and COVID-19 EIDL fraud.

Our analysis identified 38 of 330 cases that were related, meaning that two or more cases involved individuals allegedly involved in the same fraud scheme. We identified 13 clusters of related criminal cases in which individuals allegedly participated in separate schemes to defraud PPP or COVID-19 EIDL. The number of cases and program applications in each cluster ranged from two to eight and two to 202, respectively. Cumulatively, 112 individuals were charged across all 38 of the related fraud cases, obtaining about $119 million in PPP and COVID-19 EIDL funds.

Fraud Schemes Involving Facilitators Who Shared Knowledge of How to Circumvent Internal Control Mechanisms.

Our analysis of fraud schemes in DOJ cases further shows that some cases involved or allegedly involved the assistance of complicit individuals who facilitated PPP and COVID-19 EIDL fraud for others. Sometimes this may have been done in return for a kickback payment. Of the 524 individuals associated with the cases, we found that 126 (or 24 percent) were linked to 52 cases involving allegations of kickbacks.

For an Instance a Fraudster received kickbacks for submitting fraudulent Paycheck Protection Program (PPP) loan applications for other individuals. A fraudster and a co-conspirator applied for approximately 12 PPP loans, both in their own names and in the names of others to receive kickback payments. For one loan, the fraudster and the co-conspirator charged $5,000 in cash up front to apply for a $20,000 PPP loan on behalf of other individuals. On the applications, they falsely claimed hundreds of thousands of dollars in business income, forged tax forms, and used stolen business identities. For one of the other loans, they resubmitted fraudulent loan applications. In total, the fraudster and the co-conspirator obtained approximately $220,000 in PPP funds. The fraudster pled guilty to bank fraud conspiracy (GAO, 2023).

Recommendations and Conclusion

Holding banks accountable, along with government officials, in PPP (Paycheck Protection Program) loan fraud is essential for several reasons:

1. Due Diligence and Oversight: Banks play a crucial role in the distribution of PPP loans. They are responsible for vetting applicants and ensuring the legitimacy of their claims. If banks fail to perform adequate due diligence, fraudulent loans can be approved and disbursed, resulting in significant financial losses.
2. Shared Responsibility: The success of PPP loans relies on the cooperation between the government and banks. Both entities have a duty to prevent fraud and protect public funds. Holding banks accountable ensures they take their role seriously and implement rigorous checks and balances.
3. Deterrence of Future Fraud: Imposing penalties on banks for failing to prevent fraud sends a strong message that negligence or complicity in fraudulent activities will not be tolerated. This can deter future misconduct and encourage banks to enhance their fraud detection and prevention measures.
4. Restitution and Recovery: In cases of fraud, holding banks accountable can facilitate the recovery of misappropriated funds. Banks may be required to repay fraudulent loans, which helps mitigate the financial impact on the government and taxpayers.

5. Integrity of Financial Systems: Ensuring banks are accountable helps maintain the integrity and trust in the financial system. When banks are seen as vigilant and responsible, public confidence in financial institutions and government programs is bolstered.
6. Legal and Ethical Obligations: Banks have legal and ethical obligations to prevent and report fraudulent activities. Accountability ensures that these obligations are met and that banks are not complicit in fraudulent schemes.

Overall, holding banks accountable, along with government officials, promotes a fair, transparent, and effective system for administering programs like PPP, safeguarding public funds, and maintaining trust in financial institutions and government initiatives.

The FBI should act swiftly in cases of PPP (Paycheck Protection Program) loan fraud for several key reasons:

1. Preventing Further Losses

Immediate Threat: Swift action can halt ongoing fraudulent activities, preventing additional fraudulent loans from being approved and disbursed.

Resource Misallocation: The PPP was designed to aid legitimate businesses during the COVID-19 pandemic. Rapid intervention ensures that funds are directed to businesses in genuine need rather than being siphoned off by fraudsters.

2. Economic Stability

Small Business Support: The PPP aimed to support small businesses, preserving jobs and stabilizing the economy. Quick action against fraud helps maintain the integrity of this support system.

Public Trust: Ensuring that the program is not undermined by fraud boosts public confidence in government assistance programs, which is crucial for economic stability.

3. Deterrence

Setting an Example: Prompt action and prosecution serve as a strong deterrent to potential fraudsters. Seeing swift consequences can dissuade others from attempting similar crimes.

Reputation: Demonstrating that the FBI takes such fraud seriously helps maintain the credibility and deterrent effect of law enforcement.

4. Justice for Victims

Timely Restitution: Victims of fraud, including the government and taxpayers, deserve swift justice. Quick action can lead to faster restitution and recovery of misappropriated funds.

Support to Genuine Applicants: By removing fraudulent claims from the system quickly, more resources become available for genuine applicants who need the financial support.

5. Complexity and Evidence Preservation

Dynamic Nature of Fraud: Fraudulent schemes can be complex and evolve quickly. Immediate action can disrupt these schemes before they become more sophisticated and harder to unravel.

Evidence Protection: Swift investigations help preserve evidence that might otherwise be destroyed, altered, or hidden. This is crucial for building a strong case against fraudsters.

6. Operational Efficiency

Resource Allocation: Early intervention can prevent small fraud cases from escalating into larger, more complicated ones, thereby requiring fewer resources to resolve.

Collaboration with Other Agencies: Acting quickly allows the FBI to coordinate effectively with other agencies (such as the Small Business Administration) and financial institutions, which is essential for a comprehensive response.

7. National Security

Financial Stability: Large-scale fraud can have broader implications for national financial stability. Ensuring the integrity of programs like the PPP helps protect the overall economic health of the nation.

Potential Links to Organized Crime: Fraud schemes can sometimes be linked to organized crime or other illicit activities. Quick action can help uncover and disrupt these larger networks.

In summary, swift action by the FBI in cases of PPP loan fraud is essential to protect economic stability, ensure justice, deter future fraud, preserve evidence, and maintain public trust in government programs.

References

Garrett, H & Natalie R.O. (2024). Improper Payments in Pandemic Assistance Programs. Congressional Research Services.

GAO (2023). Covid-19 Relief: Fraud Schemes & Indicators in Small Business Administration Pandemic Programs. Reports to Congressional Committees.

GAO (2024). Improper Payments in Pandemic Assistance Programs. Congressional Research Services.

Taylor, Derrick. (2021). A Timeline of the Coronavirus Pandemic. New York Times. https://www.nytimes.com/article/coronavirus-timeline.html

LaBarge, Derek. (2021). Fraud & Covid-19: An Unintended downside of government aid during pandemic. Honors Program Theses. 524. University of Northern Iowa, USA.