

Federal Relief Programs Hit by Rampant PPP Loan Fraud

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Federal relief programs have seen a significant uptick in recent years, as the government seeks to mitigate the devastating impact of lockdowns on businesses across the country. But while many companies have turned to federal aid to keep their doors open, others have seen a chance to fill their pockets.

Earlier this month, the Select Subcommittee on the Coronavirus Crisis released an alarming report detailing widespread fraud within the Paycheck Protection Program (PPP) outlining how opportunistic fintechs helped themselves to taxpayer funds.

According to the investigation, several payment facilitators failed to properly disburse funds intended for small businesses. Instead, these fintech firms enriched their own companies by misusing program processing fees, allocating themselves PPP loans they didn't qualify for, and arranging additional loans for partners, family, and friends.

The report also highlights the inadequacy of the payment facilitators' internal fraud protection systems, with the policy at one firm described as "put together with duct tape and gum". In another instance, minimal compliance training was given to employees charged with screening PPP applicants and the employees faced heavy pressure from senior executives to push through high-dollar loans without scrutiny.

This approach to fraud detection continued up the chain, with lenders admitting they had no formal program to monitor their fintech partners and relied on random spot checks rather than comprehensive and continuous oversight. As a result, numerous small businesses received loans they weren't eligible for, while those responsible for distributing the funds made a tidy profit.

More fraud, more risk

This latest case has now been referred to the Department of Justice and the fintechs involved are likely facing both civil and criminal penalties. It's far from the first case of fraud within the PPP and, with billions of dollars disbursed since the pandemic began, it won't be the last.

While the original intent of the program was to get money to businesses that needed it, unfortunately the PPP was rife with fraud, waste, and abuse almost from the outset. Secondary lenders were authorized to award loans and collected a fee for doing so. This created a situation where third-party payment facilitators were pushing loans out in order to make a profit, abandoning their due diligence in the process.

Protect your organization with robust risk management

Many may consider the pandemic to be over, but fraud remains rampant. Regulators are uncovering new cases almost daily. In this environment of heightened scrutiny, those involved in relief programs need to be proactive, taking steps now to ensure they're not ensnared in any kind of financial misconduct.

Strengthening fraud detection and prevention systems isn't an area where companies can cut corners or delay. As the Select Subcommittee's report shows, failing to invest in professional expertise from the outset leaves organizations exposed to risk as they fall short of regulatory compliance. Focusing on compliance and verification as a preventative measure drastically reduces issues with fraud, waste, and abuse. It's always preferable to catch the money before it goes out the door, rather than trying to recoup it, especially considering that fraud victims

typically only recover around 10 cents for every dollar they lose.

Fraud investigators and anti-fraud consultants work with both public and private organizations to weed out financial crime. At Anchin, we have expertise with federal, state and local agencies, and we've overseen numerous high-level projects involving billions of dollars. With over 30 years experience, our [RCI team at Anchin](#) specializes in helping clients spot potential problems before they develop. Our team also works to create an internal risk management framework that gives organizations the agility and tools to swiftly address any issues relating to fraud, waste or abuse. Our financial accounting specialists are highly proficient at unraveling even the most complex fraud cases, ensuring that you are fulfilling all your legal obligations and protecting yourself against future threats.

If your organization has been involved in federal relief programs, now is the time to audit your processes and ensure your company is in compliance. To discuss your organization's fraud protection needs or learn more about how Anchin's Regulatory Compliance and Investigations team can help you minimize your risk of fraud, contact [Brian Sanvidge, Principal & Leader, Regulatory Compliance & Investigations Group](#) or your Anchin Relationship Partner.