

The U.S. Justice Department Takes Action Against COVID-19 Related Fraud

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On Friday, March 26, 2021, the U.S. Department of Justice (the “DOJ”) announced an [update](#) on criminal and civil enforcement efforts to combat COVID-19 related fraud, focusing on schemes targeting the Paycheck Protection Program (PPP), Economic Injury Disaster Loan (EIDL) program and Unemployment Insurance (UI) programs. As of late March 2021, the DOJ has publicly charged 474 defendants with criminal offenses based on fraud schemes connected to the COVID-19 pandemic. These cases involve attempts to obtain over \$569 million from the U.S. government and unsuspecting individuals and have been brought in 56 federal districts around the country.

Newly appointed Attorney General Merrick B. Garland stated, “The Department of Justice has led an historic enforcement initiative to detect and disrupt COVID-19 related fraud schemes. The impact of the department’s work to date sends a clear and unmistakable message to those who would exploit a national emergency to steal taxpayer-funded resources from vulnerable individuals and small businesses.”

Acting Assistant Attorney General Nicholas L. McQuaid of the DOJ’s Criminal Division warned “To anyone thinking of using the global pandemic as an opportunity

to scam and steal from hardworking Americans, my advice is simple – don't. No matter where you are or who you are, we will find you and prosecute you to the fullest extent of the law.”

In March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act that provided \$2.2 trillion in relief for those Americans who are suffering the economic effects caused by the COVID-19 pandemic. Anticipating the need to protect the integrity of these taxpayer funds and to otherwise protect Americans from COVID-19 related fraud, the DOJ has actively pursued multiple efforts dedicated to identifying, investigating and prosecuting it. According to the DOJ, their multifaceted and multi-district approach to enforcement during this national health emergency continues and is expected to yield numerous additional criminal and civil enforcement actions in the coming months.

On criminal matters, the DOJ's efforts to combat COVID-19 related fraud schemes have proceeded on several fronts, including:

Paycheck Protection Program (PPP) fraud

The DOJ Criminal Division's Fraud Section has brought multiple cases involving 120 defendants charged with PPP fraud. The cases involve a range of alleged misconduct, including individual business owners accused of inflating their payroll expenses to obtain loans in excess of their eligibility, individuals who revived dormant corporations and purchased shell companies with no actual operations to apply for multiple loans, falsely stating they had significant payroll, and suspected organized criminal networks who submitted identical loan applications and supporting documents under the names of different companies.

Most of these defendants have been charged with misappropriated loan proceeds for prohibited purposes, such as the purchase of houses, cars, jewelry and other luxury items. In the case of U.S. v. Dinesh Sah in the Northern District of Texas, the defendant allegedly applied for 15 different PPP loans to eight different lenders, using 11 different companies, seeking a total of \$24.8 million. The defendant obtained approximately \$17.3 million and used the proceeds to purchase multiple homes, jewelry and luxury vehicles.

In another case, *U.S. v. Richard Ayvazyan, et al.*, in the Central District of California, eight defendants allegedly applied for 142 PPP and EIDL loans seeking over \$21 million using stolen and fictitious identities and sham companies, and laundered the proceeds through a web of bank accounts to purchase real estate, securities and jewelry.

Economic Injury Disaster Loans (EIDL) fraud

The DOJ has also focused on fraud against the EIDL program, which was designed to provide loans to small businesses, agricultural and non-profit entities. Alleged fraudsters have targeted the program by applying for EIDL advances and loans on behalf of ineligible, newly created, shell or non-existent businesses and diverting the funds for illegal purposes. The DOJ, acting with other federal agencies, has seized loan proceeds from alleged fraudulent applications amounting to \$580 million to date.

Unemployment Insurance (UI) fraud

Due to the COVID-19 pandemic, more than \$860 billion in federal funds has been appropriated for UI benefits through September 2021. According to the DOJ, early investigation and analysis indicate that international organized criminal groups have targeted these funds by using stolen identities to file for UI benefits. Domestic fraudsters, ranging from identity thieves to prison inmates, have allegedly committed UI fraud. In response, the DOJ has established the National Unemployment Insurance Fraud Task Force, a prosecutor-led multi-agency task force with representatives from more than eight different federal law enforcement agencies. Additionally, the department is hiring Assistant U.S. Attorneys in multiple U.S. Attorneys Offices to focus on UI fraud prosecutions. Since the start of the pandemic, over 140 defendants have been charged and arrested for federal offenses related to UI fraud. In one case, *U.S. v. Leelynn Danielle Chytka*, in the Western District of Virginia, a defendant recently pleaded guilty for her role in a scheme that successfully stole more than \$499,000 in UI benefits using the identities of individuals ineligible for UI, including several prisoners.

Civil Actions

The DOJ is also using numerous civil tools to address fraud in connection with CARES Act programs. For example, in the Eastern District of California, the DOJ obtained the first civil settlement for fraud involving the PPP, resolving civil claims under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) and the False Claims Act (FCA) against an internet retail company and its president and chief executive officer arising from false statements to federally-insured banks to influence those banks to approve, and the SBA to guarantee, a PPP loan.

FIRREA allows the government to impose civil penalties for violations of enumerated federal criminal statutes, including those that affect federally insured financial institutions. The FCA is the government's primary civil tool to redress false claims for federal funds and property involving a multitude of government operations and functions. The FCA permits private citizens with knowledge of fraud against the government to bring a lawsuit on behalf of the United States and to share in any recovery. Such whistleblower complaints have been on the rise as alleged fraudsters take advantage of vulnerabilities created by the COVID-19 pandemic and the new government programs disbursing federal relief. The DOJ points out that whistleblower cases will continue to be an essential source of new leads to help root out the misuse and abuse of taxpayer funds.

[Greg Wank](#), [Anthony Bracco](#) and [David Beckman](#) continue to monitor ongoing updates to the PPP Program and other relief programs such as the Restaurant Revitalization Grant, Employee Retention Credit and Economic Injury Disaster Loans. Additionally, Anchin's [Litigation Support, Forensic and Valuation Services](#) (LFVS) and [Regulatory Compliance and Investigations](#) (RCI) groups are experienced in forensic accounting, aiding businesses in complying with government regulations, providing expert witness testimony and more.

Disclaimer: Please note this is based on the information that is currently available and is subject to change.