



Fraud on Taxpayers: Another Cost of Covid

America is still paying the costs of the Covid pandemic of 2019-22. Fraudsters stole more than \$280 billion in Covid relief funding by the U.S. government, while another \$123 billion was wasted or misspent of the \$4.2 trillion disbursed under several relief bills including the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

As officials uncover and punish some of the malfeasance, eye-popping cases have come to light illustrating the brazen criminality unleashed by the legislation.

CARES was rushed through Congress in late March 2020 in the dawn of the pandemic. With the economy on the verge of collapse, millions of Americans out of work and businesses going under, the Trump administration and Congress with bipartisan support pushed through a bill intended to flood the economy with aid.¹

In June 2023, the Inspector General for the Small Business Administration estimated that fraudsters looted at least \$200 billion through the Paycheck Protection Plan (PPP) and Economic Injury Disaster Loan (EIDL) programs alone. Bogus unemployment insurance claims, which are handled under other programs, likely exceeded \$100 billion.² At least half of the fraud in the Covid unemployment relief came from organized international groups, from whom recovery is unlikely. Criminal groups and individuals used stolen identities, usually Social Security numbers, to file unemployment claims that went through state workforce agencies distributing federal funds. Each identity could be worth up to \$30,000 in benefits.

From the outset, the CARES Act invited cheating, especially in the PPP and EIDL programs. Fraudsters used false identities, created non-existent businesses or simply transferred funds intended for business use to personal accounts. Funds went to incarcerated

prisoners, organized gangs, individual thieves, and public officials. As Dan Fruchter, chief of the fraud and white-collar crime unit at the U.S. Attorney's office in the Eastern District of Washington, put it, "Here was this sort of endless pot of money that anyone could access."³

This fraud came at a time when the nation was already headed toward a fiscal cliff. Today, the U.S. national debt stands at \$33 trillion and growing. Annual interest payments on the national debt crossed \$1 trillion in October after the cost of the debt doubled in 19 months. This is more than is spent on national defense.

How to Swindle Government

Politicians were so eager to act that basic precautions were not taken. 2020 was an election year and the people demanded action from their elected officials. In their rush to get something done, the president and Congress constructed a huge feeding trough where pigs gorged themselves at the taxpayers' expense.

Nobody should think that ending waste and fraud will solve the astronomical national debt and budget deficits we face today.⁴ But taxpayers should demand laws from their legislators that do not invite cheating. This is exactly what the CARES Act did, and the extent of the fraud is mind-numbing.

Fraud through the PPP and EIDL programs is only now being measured. The reported amount of the fraud keeps going up every month, and it is already being characterized as "*the largest fraud in U.S. history.*"⁵

The \$800 billion PPP proved to be the most lucrative program for fraudsters. Federal funds were given to the Small Business Administration (SBA) to provide funds to banks and other financial institutions to make government-backed loans to businesses. These loans

were to be forgiven if companies spent their money on business expenses. By 2022, nearly 10 million such loans were handed out.

Portraits in Pig-ment

Justice Department Inspector General Michael Horowitz told NBC, “The Small Business Administration, in sending the money out, basically said to people, ‘Apply and sign and tell us that you’re really entitled to the money.’”⁶ The SBA was directed to get the money out as quickly as possible. Congress required the SBA to issue explicit guidance that in the interest of getting the money out fast, banks and other financial institutions would be held “harmless for borrowers’ failure to comply with the program criteria.”⁷

The Government Accounting Office (GAO) warned at the time that this approach was opening the door to fraud. The GAO’s warning was not the only one. Haywood Talcove, the head of LexisNexis Risk Solutions, was frightened by the potential for rampant fraud. His company maintains huge databases of public records and sells verification records to the federal government. In a panic, he reached out to Larry Kudlow, at the time President Trump’s top economic adviser. Talcove recounted to NBC, “I explained to him that this was going to be the biggest fraud in the history of the country.” Talcove said Kudlow replied that you can have speed or you can have security, and that the administration wanted speed.⁸

Given the sheer number of PPP loans, tracking down fraud has been a Herculean task for government inspectors. The Pandemic Response Accountability Committee has employed data experts plowing through 150 million records looking for fraud patterns. This data mining is time-consuming and intricate. In one case, a search revealed a Houston gas station telephone number had been used for 150 applications.

Grifters went on extravagant spending sprees, buying luxury cars, vacation homes, yachts, Rolex watches and high-end jewelry. Malefactors are beginning to receive their just deserts as prosecutions progress.

A 29-year-old Miami man was sentenced to prison for using ill-gotten loans to buy a \$318,000 Lamborghini Huracán, while spending thousands on luxury hotel stays, jewelry, clothing and dating websites. In another Florida case, a man received a prison sentence for taking a \$7.2 million emergency loan to buy a 12,579-square-foot mansion, a high-priced Lincoln SUV, a Maserati and a Mercedes-Benz.

A California couple was convicted in June for stealing \$18 million. They bought three houses, diamonds, gold coins, luxury watches and expensive furniture. Just as they were about to be sentenced for their crimes, they cut off their ankle bracelets and fled, abandoning their children in the process. Authorities caught up with them in Montenegro. They were returned to the U.S., where the man was sentenced to 17 years in prison and his wife to six years.

In Washington, DC, Elias Eldabbagh was sentenced to 10 years in prison for trying to steal \$17 million from PPP and another program. While awaiting trial, he attempted to defraud a bank. Another bold scammer, Danielle Miller, pleaded guilty to stealing IDs from a Massachusetts website to apply for Covid relief loans. It took her only 40 minutes of work to receive \$100,000 in taxpayer money. After being charged, she was profiled in a New York magazine as a woman who overcame adversity when her Manhattan parents were found to have circulated a sexually explicit video. She told the magazine, “Honestly, I more so consider myself a con artist than anything. You know how they have that saying that you can sell ice to an Eskimo? If there is something that I want, I’m getting it.”⁹

Public Servants at the Trough

Politicians were naturals to get in on the feeding frenzy. Florida state Rep. Joseph B. Harding was indicted by a grand jury in late 2022 for making fraudulent applications to the SBA using names of dormant business entities to receive money.¹⁰ Previously, the Republican lawmaker had made national news for pushing the Parental Rights in Education Act, legislation designed to limit class instruction about sexual orientation and gender identity.

Strong cultural values did not prevent Harding, it appears, from trying to defraud the government. He was accused of creating fraudulent bank statements concerning two business entities he owned, Vak Shack and Harding Farms. Vak Shack had no employees and zero revenue in the 12 months leading up to application. Harding Farms likewise had no employees and no revenue. He received \$150,000 in SBA loans. Harding initially pleaded not guilty to the charges, saying that the loans had been repaid, but just before the trial he changed his plea to “guilty.”

James Kyle Bell, a Las Vegas man, presents another example of how greed cut across partisan and ideological lines. Bell was convicted in late 2021 for a

scheme of bilking the PPP and setting up two scam political action committees (PACs). He was sentenced to 46 months in prison and ordered to repay \$1.4 million to his victims, including federal taxpayers. Bell created two phony PACs, the pro-Trump Keep America Great Committee and the pro-Biden Best Days Lie Ahead Committee, as well as five shell companies that received more than \$1 million after filing fraudulent applications.¹¹

The Rot in Illinois Agencies

Most egregious, arguably, were officials in Chicago Public Schools who committed fraud.¹³ In late 2023, investigators caught 14 school staffers, including the chief operating officer of the school system, involved in Covid-19 relief loan fraud. This investigation led to the resignation of Crystal Cooper for allegedly inflating her income to increase the amount of her Covid relief loan for a business she never reported on prior to the application. In short, she was operating a business while receiving a full-time city salary. She received a PPP loan of \$15,625, which was forgiven before it was revealed her application was a fraud.

In his investigation, Will Fletcher, who was appointed as inspector general for the Chicago public school system, discovered that not only had Cooper committed fraud, but 13 others within the school system had lied on their loan applications, some inventing fake businesses. All but one of these individuals made an annual Chicago Public Schools salary of at least \$100,000. Cooper's salary was \$220,000. Fletcher reported that *780 Chicago Public Schools employees received PPP loans*. His investigation is starting with the top earners in the system and working its way down. So far, 14 school officials have resigned, and more are expected to resign as the investigation continues.¹⁴

A similar scandal has engulfed numerous employees who worked at the Illinois Department of Human Services, including state-run facilities for people with disabilities. In June it was confirmed that at least *30 Human Services employees were in various stages of disciplinary actions for inappropriately taking PPP loans*. As of August, eight employees had been fired, six had resigned and 16 were under pending disciplinary action. *The investigations in Illinois are widening to dozens of other state employees across multiple agencies*.¹⁵

Those caught looting government funds included the famous and not so famous. Former Baltimore State's Attorney Marilyn Mosby was among the famous, now infamous, who got caught.¹⁶ Her actions cost her (and perhaps saved Baltimore and the state from) Mosby's rising political career. She came to national attention following the Freddie Gray riots of 2015 by ignoring the crimes during the rioting that followed the shooting of a black man by Baltimore police officers. She ordered the arrest and indictment of the police officers involved in the shooting. Eventually all but some minor charges were dropped.

In November Mosby was convicted of two counts of perjury that arose from her requests for withdrawals of \$40,000 and \$50,000 from the City of Baltimore's Deferred Compensation Plan. She claimed that she had experienced adversity from the coronavirus as a result of being quarantined, furloughed or laid off; having reduced work hours; being unable to work due to lack of child care; and reduction of hours of a business she owned. The jury concluded that Mosby did not suffer much at all. She received her full gross salary of nearly \$248,000 in 2020.¹⁷ Mosby faces another trial for fraudulent mortgage claims that enabled her and her husband to buy two vacation homes in Florida.

Lessons Learned?

Government investigators have found only the tip of the iceberg of fraud. The Justice Department has now launched an investigation into the banks and other financial groups that approved these loans. These institutions failed to maintain financial controls, but they were under pressure by the government to get the loans out, so their culpability remains unclear.

While the full extent of Covid-19 relief fraud is unknowable, investigations are proceeding at a rapid pace. Reports of fraud continue to appear daily in the media.

Whether lessons will be learned for the next big government giveaway program remains to be seen. What is clear is that in the rush to infuse money into the economy, those in charge neglected to impose necessary controls to prevent fraud. We also know that fraud has long been endemic in Medicare, Medicaid and Social Security programs.

In the end, fraud on government programs robs taxpayers who have to foot the bill. Moreover, *the rot spreads a lack of moral responsibility in the wider*

culture. Politicians should be held responsible for not insisting on stricter controls in any federal and state relief program, but ultimately citizens themselves are responsible if they accept a culture of bread and circuses.

In a world without moral order or individual responsibility, government safeguards will not suffice to prevent widespread fraud. What we saw in the Covid-19 pandemic was a culture in crisis. This was a deeper illness than we realized at the time. Masks cannot protect us from this deeper illness; only moral renewal can.

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¹ <https://apnews.com/article/pandemic-fraud-waste-billions-small-business-labor-fb1d9a9eb24857efbe4611344311ae78>.

The CARES Act was extensive, including direct payments to taxpayers, mortgage and rent relief, unemployment assistance, student loan relief, expansion of the Economic Injury Disaster Loan Program under the Small Business Loan Program, and the Paycheck Protection Program for small business, non-profit organizations, veteran organizations and tribal businesses.

² <https://www.sba.gov/document/report-23-09-covid-19-pandemic-eidl-ppp-loan-fraud-landscape><https://www.sba.gov/document/report-23-09-covid-19-pandemic-eidl-ppp-loan-fraud-landscape>; gao.gov/blog/more-fraud-has-been-found-federal-covid-funding-how-much-was-lost-under-unemployment-insurance-programs.

³ <https://apnews.com/article/pandemic-fraud-waste-billions-small-business-labor-fb1d9a9eb24857efbe4611344311ae78>.

⁴ <https://www.investopedia.com/us-debt-by-president-dollar-and-percentage-7371225>.

⁵ <https://www.nbcnews.com/politics/justice-department/biggest-fraud-generation-looting-covid-relief-program-known-ppp-n1279664>.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ <https://www.nytimes.com/2022/12/07/us/joe-harding-pandemic-aid-fraud.html>; <https://www.cnn.com/2023/03/21/politics/florida-joseph-harding-covid-19-fraud/index.html>.

¹¹ <https://www.businessinsider.com/creator-pro-trump-scam-pac-charged-with-ppp-fraud-prosecutors-2021-4>.

¹² <https://www.washingtonpost.com/dc-md-va/2021/12/06/trump-scam-pac-operator-sentenced/>.

¹³ <https://chicago.suntimes.com/2023/9/6/23860469/ppp-payroll-protection-program-cps-will-fletcher-crystal-cooper>.

¹⁴ <https://news.wttw.com/2023/09/06/14-chicago-public-schools-employees-officials-connected-ppp-loan-fraud-watchdog-repor>.

¹⁵ <https://www.theintelligencer.com/news/article/state-employees-investigation-fraud-ppp-loan-18278935.php>.

¹⁶ <https://hotair.com/jazz-shaw/2023/11/10/the-rise-and-hard-fall-of-baltimore-states-attorney-marilyn-mosby-n591473>.

¹⁷ <https://www.cbsnews.com/baltimore/news/former-baltimore-states-attorney-marilyn-mosby-federal-trial-split-two-cases-moved-greenbelt/>; <https://www.washingtonpost.com/dc-md-va/2021/12/06/trump-scam-pac-operator-sentenced/>.

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