



## SIGNIFICANT ACTIVITY REPORT: PPP FRAUD INVESTIGATIONS

Wednesday, September 6, 2023

The Office of Inspector General for Chicago Public Schools has reported on pandemic relief fraud investigations of 14 CPS employees to date, most of whom earned six-figure salaries and held positions of authority and trust throughout the district. In each case, the OIG found that the employee used falsified loan applications to receive up to \$21,000 in fraudulent Paycheck Protection Program (PPP) loans.

The OIG has been conducting thorough investigations into suspected PPP loan fraud by CPS employees since 2021.<sup>1</sup> As investigations have completed, the OIG has reported them to CPS, and 12 of those employees have either resigned or had their employment terminated. The district has initiated termination proceedings against the remaining two employees, and that process is ongoing. This Significant Activity Report updates the OIG's FY 2022 Annual Report which mentioned the OIG's district-wide review of CPS employees who received PPP loans. Following a widely-reported nationwide trend of fraudulent loans, the OIG's review has identified hundreds of potentially fraudulent PPP loans.

Pandemic relief fraud by CPS employees causes significant reputational harm to CPS and diminishes trust in the school district. This is especially true when the perpetrators are employees responsible for managing public funds.

The OIG's review and investigations have highlighted the need for CPS to institute measures in the hiring process to determine whether prospective employees may have fraudulently obtained pandemic relief funding and to raise awareness about the longstanding

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<sup>1</sup> In addition to investigations of CPS employees, the OIG also has examined abuse of the PPP in other contexts. For example, the OIG previously reported that it found that CPS charter schools received over \$43 million in PPP funds on top of the uninterrupted payments they received from CPS during the pandemic. That matter was discussed on page 11 of the OIG's [Fiscal Year 2021 Annual Report](#). In a separate performance review, the OIG found that several CPS bus vendors had received millions of dollars in PPP loans despite laying off workers and receiving millions of dollars from CPS with no services provided in return. That matter was also discussed in the OIG's [Fiscal Year 2021 Annual Report](#), on page 6.

requirement for CPS employees to disclose and receive approval for any secondary employment.

## BACKGROUND

The PPP was established in March 2020 to support small businesses and other eligible entities impacted by COVID-19 with the goal of keeping workers employed. Between March 2020 and May 2021, the PPP guaranteed more than 11.4 million forgivable PPP loans totaling nearly \$800 billion in value.

It is now apparent, however, that the PPP experienced “unprecedented fraud levels,” as the Small Business Administration Inspector General stated in a May 2022 report.<sup>2</sup> A recent report by the Government Accountability Office (GAO) found that the SBA had referred over 669,000 potentially fraudulent PPP and COVID-19 EIDL loans to the SBA Office of the Inspector General for investigation.<sup>3</sup> In the same report, the GAO noted that it had identified over 3.7 million unique recipients of PPP or COVID EIDL loans with fraud indicators, out of a total of 13.4 million recipients.

The SBA has acknowledged that the initial focus of the PPP was on providing financial assistance as quickly as possible rather than carefully reviewing PPP loans as would be the case with typical SBA loans.<sup>4</sup> PPP rules allowed borrowers to self-certify that the information submitted in their loan applications was true and correct. At the same time, the SBA did not provide the participating lenders who received PPP loan applications with sufficient guidance on detecting and resolving potentially fraudulent loans. As a result, individuals were able to easily acquire fraudulent PPP loans through falsified loan applications.

Reports of government employees committing PPP fraud have become increasingly common in recent months. For example, the Clerk of the Circuit Court of Cook County reported that dozens of Cook County employees had resigned or been fired in ongoing investigations of fraud in COVID-19 relief programs. In recent months, inspectors general have issued public reports regarding pandemic relief fraud by employees of the Cook County Circuit Court, the Chicago Housing Authority, the Chicago Park District and other government entities.

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<sup>2</sup> United States Small Business Administration Inspector General, “SBA’S Handling of Potentially Fraudulent Paycheck Protection Program Loans,” May 26, 2022, available at <https://www.oversight.gov/sites/default/files/oig-reports/SBA/SBA-OIG-Report-22-13.pdf>.

<sup>3</sup> United States Government Accountability Office, “COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs,” Report to Congress, May 18, 2023, available at <https://www.gao.gov/assets/gao-23-105331.pdf>.

<sup>4</sup> SBA OIG, “SBA’S Handling of Potentially Fraudulent Paycheck Protection Program Loans,” Management Response.

## METHODOLOGY

In Fiscal Year 2022, the OIG initiated a project to proactively identify PPP fraud by CPS employees using loan recipient data published by the SBA and internal CPS personnel records. The OIG analyzed the data to find CPS employees with substantially similar names and addresses as PPP loan recipients. The OIG then filtered out hourly employees, reviewed data for false matches, and conducted more in-depth reviews of individual cases to determine whether specific employees actually obtained PPP loans.

Based on this data, the OIG identified more than 780 full-time salaried CPS employees that received PPP loans. Of these loan recipients, some may have either obtained PPP loans legitimately, or, for example, may have been victims of identity theft where their personal identifying information was stolen and used to obtain a PPP loan. The OIG has also expanded its analysis to include reviews for fraud involving other government pandemic relief programs, including the COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program.

The OIG has reviewed CPS employees' PPP loans for indicators of potential fraud and has begun opening investigations into suspicious loans. To date, the OIG has issued 14 substantiated reports to the Board regarding employees who defrauded the PPP, mostly involving employees in leadership and central administration roles with annual salaries of over \$100,000.

Each substantiated case involved subjects who applied for a PPP loan by claiming to be self-employed and, in each case, the subject was found to have lied on their loan application. For instance, a CPS full-time employee earning more than \$140,000 claimed in the PPP loan application they submitted to have earned more than \$100,000 in 2019 alone by working as a chef. When interviewed by the OIG, however, the employee admitted that the information provided on the loan application was false.

While a majority of the substantiated reports were a result of the OIG's proactive efforts to identify PPP fraud, additional fraud investigations arose while the OIG was investigating the employees for unrelated misconduct. Several more PPP fraud investigations are nearing completion.

PPP fraud and other pandemic relief fraud are serious crimes. The OIG is engaged in ongoing discussions with law enforcement agencies regarding the OIG's PPP matters.

## RECOMMENDATION FOR VETTING PROSPECTIVE EMPLOYEES

Due to the prevalence of pandemic relief fraud, the OIG recommends that CPS require prospective CPS employees to disclose whether they received any pandemic relief funding as part of the onboarding process.

## SUMMARIES OF SUBSTANTIATED CASES

Below are summaries of the 14 substantiated PPP fraud cases the OIG has reported on to date:

- ***Central Office Administrator Engaged in PPP Fraud, Failed to Report Self-Employment Income***

An OIG investigation found that a Central Office administrator fraudulently obtained a forgivable PPP loan of more than \$15,000 by making false statements on their loan application, including the false claim that they had earned \$75,000 as a sole proprietor in 2020.

At the time of the investigation, the administrator's annual salary was more than \$200,000.

In their interview with the OIG, the administrator admitted that they misrepresented the income and expenses submitted on the PPP loan application and other documents. The administrator stated that they intentionally inflated their self-employment income on the PPP application to qualify for a larger PPP loan. The administrator admitted that they received and spent the PPP loan proceeds, and also admitted to completing and submitting a PPP loan forgiveness application in June 2021 that resulted in the entire balance of their PPP loan being forgiven.

The administrator also told the OIG that they consistently earned self-employment income for their entire tenure as a CPS employee, but failed to submit a secondary employment approval form to CPS. The evidence also showed that the administrator did not disclose any outside income on any of their Statements of Business and Financial Interests that they filed with CPS for several years.

Following their interview with the OIG, the employee resigned from CPS. The OIG recommended that a Do Not Hire designation be placed in the administrator's personnel file and would have recommended their termination had they not already resigned. Accordingly, the Board placed a Do Not Hire designation in the administrator's personnel file.

- ***CPS Administrator Obtained PPP Loan by Falsely Inflating Income***

A CPS administrator fraudulently obtained a forgivable PPP loan of \$20,000 by falsely stating that they had earned nearly \$100,000 in net income as a sole proprietor in 2019. This misconduct is particularly egregious in that the employee's role at CPS involved monitoring CPS's use of public funds.

At the time of the investigation, the administrator had an annual salary of more than \$120,000.

In their interview with the OIG, the administrator admitted that they received the PPP loan, but told the OIG that they had paid a person whose name they did not recall to complete the loan application for them. When asked to provide evidence to corroborate their claim that another individual prepared their PPP loan application, they were unable to do so. The

administrator also did not explain the extent of their own involvement in submitting the loan application or their knowledge of its contents.

When asked about any non-CPS employment that they have had, the administrator told the OIG that they had multiple sources of other income in recent years, but admitted that they did not earn anywhere near the \$96,000 in income that they stated on the PPP loan application. They also admitted to completing and submitting the loan forgiveness application which led to their PPP loan being forgiven in full. The OIG investigation found that the administrator also made a number of false certifications on the loan forgiveness application.

The OIG recommended that the administrator be terminated and that the Board place a Do Not Hire designation in their personnel file. Accordingly, the administrator's employment was terminated and a Do Not Hire designation was placed in their personnel file.

- ***Regional Administrator Created Fake Business to Fraudulently Obtain PPP Loan***

An OIG investigation found that a former regional administrator fraudulently obtained a PPP loan of more than \$20,000 by falsely stating that they had approximately \$100,000 in annual income from their business, when, in fact, neither the business nor the income existed. The evidence showed that the administrator spent much of these funds on expensive luxury items, as well as a trip to Las Vegas.

At the time of the investigation, the administrator was earning a salary of more than \$165,000 per year at CPS.

In their interview with the OIG, the administrator admitted that they did not have their own business, nor did they have any employment or business income outside of their work with CPS. This admission was consistent with the financial disclosure information they reported to CPS.

Bank records showed that the administrator received the PPP funds in their personal checking account and spent the funds within two months of receiving them, largely on personal travel and luxury items. Significantly, a loan forgiveness application in the administrator's name was submitted to their lender a couple of months later. Like most PPP loans, their loan was entirely forgiven.

The OIG recommended that the administrator receive a Do Not Hire designation in their personnel file and would have recommended their termination had they not already resigned. Accordingly, a Do Not Hire designation was placed in the administrator's personnel file.

- ***School Manager Engaged in PPP Fraud and Tax Fraud***

A high school administrative employee obtained a \$20,000 forgivable PPP loan by falsely claiming that they earned self-employment income of over \$100,000 in 2020. The manager admitted that while they engaged in some secondary employment in 2020, they did not earn the amount of income claimed on their PPP loan application.

At the time of the investigation, the manager had an annual salary of over \$110,000.

In their interview with the OIG, the manager admitted to applying for the loan and for loan forgiveness. They also admitted that they did not gross over \$100,000 in self-employment income in 2020, contrary to what was listed on their PPP loan application. The manager stated that they spent some of the PPP loan funds on paying themselves, but could not say what they did with the remaining funds.

The OIG's investigation also showed that in addition to PPP fraud, the manager engaged in tax fraud by underreporting their actual self-employment income on their 2019 and 2020 tax returns. Business and tax records showed that while the manager did not earn over \$100,000 in self-employment income as they claimed on their PPP loan application, they did earn significantly more than they reported to the government on their 2019 and 2020 tax returns.

In other words, the business records and other evidence acquired by the OIG indicate that the case manager overstated their self-employment income on their PPP loan application to obtain a fraudulent PPP loan, while simultaneously understating their self-employment income on their federal tax returns to reduce their tax bill.

The OIG recommended that the manager be terminated and that a Do Not Hire designation be placed in their personnel file. The Board commenced disciplinary action, during which the manager resigned, and a Do Not Hire designation was placed in their personnel file.

- ***Tech Employee Obtained PPP Loan by Falsely Reporting Self-Employment Income***

An OIG investigation found that a CPS tech employee obtained a fraudulent PPP loan of more than \$20,000 by making false statements on their loan application, including the false claim that they earned over \$125,000 in self-employment income.

At the time of the investigation, the tech employee was earning nearly \$110,000 per year at CPS.

In their interview with the OIG, the tech employee initially said that they had no outside employment and did not own any business. They later told the OIG that they did some work for a family business, but that they were not paid for the work. The tech employee said that they believed they were eligible for a PPP loan on account of their role as an unpaid "contractor" of the family business.

Following their interview, the tech employee contacted the OIG and said they believed they were eligible for a PPP loan because they were an owner and manager of other small businesses, but never provided any evidence showing that they earned income from the businesses.

The evidence indicated that the tech employee knowingly engaged in PPP fraud and that their claims that they believed they were eligible for a PPP loan were merely pretext. The OIG determined that the loan proceeds were deposited into the tech employee's personal account and they admitted to spending the funds on matters unrelated to the businesses.

The OIG recommended that the Board terminate the tech employee's employment and that a Do Not Hire designation be placed in their personnel file. Accordingly, the tech employee's employment was terminated and a Do Not Hire designation was placed in their personnel file.

- ***School Administrator Falsely Claimed Over \$100,000 in Income to Obtain Fraudulent PPP Loan***

An OIG investigation found that a school administrator fraudulently obtained a PPP loan of more than \$20,000 by falsely claiming over \$100,000 in self-employment income in 2020. At the time of the investigation, the administrator had an annual salary of over \$160,000.

In an interview with the OIG, the administrator gave a number of inconsistent and contradictory statements, first stating that they had completed the PPP loan application themselves, and then stating that an unnamed person submitted it for them. The administrator stated that they had done side jobs for a number of years and that they believed the statements in their PPP loan application were truthful. However, they admitted that they had never claimed any self-employment income on their tax returns. The administrator also admitted to the OIG that they received and spent the loan proceeds and that their entire loan balance was ultimately forgiven.

At the OIG's request, the administrator provided evidence of their claimed self-employment work. The evidence showed that the administrator was not personally involved in the work they claimed to have done, nor was the amount of work nearly substantial enough to amount to \$100,000 in gross income.

The OIG recommended that the school administrator be terminated and that a Do Not Hire designation be placed in their personnel file. The Board initiated dismissal proceedings against the administrator, which are currently pending.

- ***School Administrator Falsely Claimed Self-Employment Income, Obtained Fraudulent PPP Loan***

A school administrator fraudulently obtained a forgivable PPP loan of more than \$20,000 by claiming false self-employment income of nearly \$100,000 as a chef on their loan application.

At the time of the investigation, the administrator's annual salary was over \$140,000.

In their interview with the OIG, the administrator admitted that they had never worked as a chef and that the income on their loan application was false. They stated that they had earned non-CPS income from a rental property they owned, but that it was far less than the nearly \$100,000 they claimed on their PPP loan application. They claimed that someone else prepared the application for them, but admitted to reviewing and signing it.

The administrator also admitted to submitting the loan forgiveness application on their own, falsely certifying that they had complied with the PPP rules and that the information

provided was true and correct in all material respects. As a result, their PPP loan was forgiven in full.

The OIG recommended that the Board terminate the school administrator's employment and place a Do Not Hire designation in their personnel file. The administrator resigned and a Do Not Hire designation was placed in their personnel file.

- ***School Administrator Engaged in PPP Fraud***

A school administrator fraudulently obtained a PPP loan of more than \$20,000 by making false statements on their loan application. The administrator falsely claimed over \$100,000 in self-employment income to obtain their forgivable PPP loan. At the time of the investigation, the administrator had an annual salary of over \$100,000.

In their interview with the OIG, the administrator initially denied receiving a PPP loan at all. After being shown PPP loan records, they admitted that they had not earned the income listed on the loan application, but claimed that their identity had been stolen and that they had not applied for or received the loan. When shown bank records indicating that they had in fact received the loan proceeds, the administrator then acknowledged that they had received the loan but continued to deny that they had personally submitted the loan application.

The administrator eventually admitted to submitting the fraudulent application, and acknowledged that they had received and spent the loan proceeds.

The OIG recommended that the Board terminate the school administrator's employment and that a Do Not Hire designation be placed in their personnel file. Accordingly, the administrator's employment was terminated and a Do Not Hire designation was placed in their personnel file.

- ***School Administrator Claimed False Self-Employment Income to Obtain PPP Loan***

An OIG investigation found that a school administrator knowingly obtained a fraudulent forgivable PPP loan of more than \$20,000 by falsely claiming over \$120,000 in self-employment income in 2019. At the time of the investigation, the administrator's annual salary was over \$120,000.

In an interview with the OIG, the administrator admitted that they were not self-employed and had no compensation outside of CPS for several years. They also told the OIG that their accountant had completed the PPP loan application for them and was responsible for the claim that they had earned over \$120,000 in self-employment.

The OIG interviewed the accountant, who denied completing the administrator's PPP application and said that she only advised them on how to go about completing it themselves. The accountant also contradicted the administrator's claim that they did not have self-employment, stating that she had personally prepared taxes for their side business and that it had earned over \$100,000 in 2019.



The OIG asked both the administrator and the accountant for documentation supporting their statements about the company's 2019 income, but neither party provided the OIG with any additional records.

The administrator resigned from CPS during the course of this investigation, on the day in which they were scheduled to appear for a second interview with the OIG.

The OIG recommended that the school administrator receive a Do Not Hire designation in their personnel file and would have recommended their termination had they not already resigned. Accordingly, the Board placed a Do Not Hire designation in their personnel file.

- ***School Administrator Engaged in PPP Fraud, Obtained Two Forgivable PPP Loans***

A school administrator fraudulently obtained two forgivable PPP loans totaling more than \$40,000 by claiming that they earned nearly \$100,000 in self-employment income in 2019.

At the time of the investigation, the administrator had an annual salary of over \$120,000.

In their interview with the OIG, the administrator admitted that the gross income listed on their loan applications was false. Although they maintained that they did have a business selling clothing, they admitted that they had earned at most \$7,500 in a year, far less than the nearly \$100,000 in self-employment income stated on their loan applications. The administrator also admitted that they reviewed and approved the application before signing it, despite knowing that the information was false.

The administrator claimed that they used all of their loan proceeds to purchase merchandise for their business, but was unable to provide the OIG with receipts of those purchases.

The OIG recommended that the school administrator's employment be terminated and that the Board place a Do Not Hire designation in their personnel file. The Board terminated the administrator's employment and placed a Do Not Hire designation in their personnel file.

- ***School Administrator Fraudulently Obtained PPP Loan***

An OIG investigation found that a school administrator fraudulently obtained a forgivable PPP loan of more than \$20,000 by claiming that they earned nearly \$100,000 in self-employment income in 2019. The administrator admitted to the OIG that they did not earn any self-employment income in 2019.

At the time of the investigation, the administrator's annual salary was nearly \$130,000.

In their interview with the OIG, the administrator claimed that they did not personally list the false information on their loan application. They stated that another individual completed the application for them in exchange for \$5,000, but would not give the individual's name. The administrator also claimed that they did not understand what they were signing, but thought that they were eligible for a PPP loan because they intended to start a business.

The OIG did not find the administrator's statements to be credible based on all of the evidence. The administrator also admitted to filling out and submitting the loan forgiveness

application on their own, again certifying that all of the information they had submitted was true and correct. Consequently, the OIG concluded that the administrator likely knowingly engaged in PPP fraud.

The OIG recommended that the school administrator be terminated and that the Board place a Do Not Hire designation in their personnel file. The Board commenced disciplinary action, during which the employee resigned, and a Do Not Hire designation was placed in their personnel file.

- ***School Administrator Claimed False Self-Employment Income to Fraudulently Obtain PPP Loan***

A school administrator fraudulently obtained a PPP loan of more than \$20,000 by falsely claiming over \$100,000 in self-employment income in 2020.

At the time of the investigation, the administrator's annual salary was over \$120,000.

In an interview with the OIG, the administrator admitted that they applied for and received the loan and that the gross income listed on their PPP loan application was false. They claimed that the amount listed was their combined self-employment income and CPS salary but did not respond to requests for evidence that their purported self-employment had earned any income in 2020, casting further doubts on their claims.

The OIG found it improbable that the administrator could have signed and submitted their PPP loan application without being aware that the application and supporting materials contained the blatantly false statement that they had earned over \$100,000 in self-employment income in 2020. Consequently, the OIG concluded that the administrator likely knew that they were obtaining a fraudulent PPP loan under false pretenses.

The OIG recommended that the school administrator receive a Do Not Hire designation in their personnel file and would have recommended their termination had they not already resigned. Accordingly, a Do Not Hire designation was placed in their personnel file.

- ***Teacher Engaged in PPP Fraud, Falsely Inflated Self-Employment Income***

A teacher fraudulently obtained a PPP loan of more than \$20,000 by falsely inflating their self-employment income, claiming that they had earned over \$100,000 in 2020.

At the time of the investigation, the teacher had an annual salary of over \$110,000.

When questioned about their PPP loan, the teacher admitted to receiving the loan proceeds. They stated that, while they had done some tutoring work, they had never earned anywhere near the \$100,000 they claimed on their loan application. The teacher initially told the OIG that they completed the PPP loan application themselves, but later claimed that someone else had prepared it for them and that they had only signed it.

The OIG determined that the teacher's claims were inconsistent and not credible. Accordingly, the evidence indicated that they knowingly made false statements on their loan application to fraudulently obtain a PPP loan.

In addition to their PPP fraud, the OIG also found evidence that the teacher had engaged in other unrelated misconduct. The OIG recommended that the Board terminate the teacher's employment and place a Do Not Hire designation in their personnel file. The Board initiated dismissal proceedings against the teacher, which are currently pending.

- ***School Support Employee Used Fake Business to Fraudulently Obtain PPP Loan***

A school support employee obtained a fraudulent PPP loan of more than \$20,000 by falsely claiming that they had earned over \$100,000 as a barber in 2019.

At the time of the investigation, the employee's annual salary was nearly \$76,000.

In an interview with the OIG, the school support employee admitted that they did not work as a barber and that their only non-CPS income came from a small tutoring business which earned far less than \$100,000 in 2019. They told the OIG that an acquaintance had completed the loan application for them and that they had only reviewed and signed it and did not really know what they were signing.

However, the OIG acquired records which showed that the employee was more involved with the PPP loan than they suggested to the OIG. Therefore, the OIG found that they knowingly made false statements to fraudulently secure the PPP loan.

In addition to the PPP fraud, the OIG also found evidence that the school support employee had engaged in other unrelated misconduct. The OIG recommended that the school support employee's employment be terminated and that a Do Not Hire designation be placed in their personnel file. The Board commenced disciplinary action, during which the employee resigned, and a Do Not Hire designation was placed in their personnel file.