GAO Report Highlights Opportunities to Improve Federal COVID Response and Recovery Efforts

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Original post here.

On June 25, 2020 the Government Accountability Office (GAO) provided a comprehensive report to Congress detailing the US government's response to the COVID pandemic, particularly the four relief laws passed prior to June 2020, and actionable steps to improve those efforts. Within these four laws, $2.6 trillion has been mobilized (breakdown below). However, the GAO does not have insight into the actual expenditures, only appropriations, as the federal agencies will begin detailing spending in their July 2020 monthly reporting. In regards to the overall federal response, the GAO notes the speed with which the programs were launched. However it faults agencies for "[making] only limited progress so far in achieving transparency and accountability goals."

The recommendations outlined in the GAO report cover health and economic programs; in this blogpost, our discussion is limited to the economic programs. The report includes suggested legislative actions and program-specific changes to increase the efficiency of the federal response. In addition to providing specific advice, the GAO highlighted lessons which parallel these steps and should be strongly considered during future interventions.

Allocation of Funds for COVID Response as of May 31, 2020 (Source: GAO Report)

Program*	Implementing Government Entity	Summary of Program	Appropriation Amount in billions	Percentage of Total
Paycheck Protection Program	Small Business Administration	Provides funding to guarantee loans—that may be forgiven—to small businesses and other eligible entities to cover payroll and other costs over 8 weeks	670	26%
Economic Stabilization and Assistance to Distressed Sectors	Department of the Treasury	Provides liquidity to support lending to eligible businesses, states, municipalities, and tribes	500	19%

		related to losses incurred as a result of the pandemic.		
Unemployment Insurance	Department of Labor	Provides income support to unemployed individuals by expanding eligibility for unemployment compensation benefits, increasing weekly benefit amounts by $600, and extending the number of weeks of benefit eligibility.	375	15%
IRS Economic Impact Payments	Department of the Treasury	Provides direct payments of up to $1,200 per qualifying adult and up to $500 per qualifying child.	282	11%
Public Health and Social Services Emergency Fund	Department of Health and Human Services	Provides financial assistance for a variety of healthcare-related costs including vaccine development, testing, health insurance costs, among others	232	9%
Coronavirus Relief Fund	Department of the Treasury	Provides payments to states, local, tribal, and territorial governments for pandemic-related spending	150	6%
Other			365	14%
Total			2,574	100%

GAO Recommendations for Congressional Consideration

1. Require coordination between the Department of Transportation and relevant agencies

The potential for air travel to be a catalyst for widespread contraction of COVID, as well as its vital economic role, led the GAO to recommend deepening the relationships between the Department of Transportation and agencies such as the Department of Health and Human Services and Department of Homeland Security. The intended outcome of this coordination includes a national aviation-preparedness plan regarding disease outbreaks that “could establish a mechanism for coordination between the aviation and public health sectors and guide preparation for communicable disease nationally and for individual airlines and airports.” Without a unified mechanism for coordination, it is likely that stakeholders will have a fragmented response to outbreaks, including disparate airline policies of ramping up capacity (as we are now experiencing). A unified policy would mitigate potential outbreaks while decreasing consequences for commerce and travel.

2. Give the Department of the Treasury access to the Social Security Administration’s death data

The Treasury Inspector General for Tax Administration has reported that almost 1.1 million payments of approximately $1.4 billion dollars have gone to deceased recipients through economic impact payments as of April 30. These improper payments stem from tension between a desire to make payments speedily as promised to the public and an initial decision by the Internal Revenue Service (IRS) counsel that the statutory wording compelled payment to individuals who had filed taxes but were deceased at the time of payment. The IRS counsel believed that the ”IRS did not have the legal authority to deny payments to those who filed a return for 2019, even if they were deceased at the time of payment.” Also, the counsel claimed that decedents were not precluded from the program as the CARES Act required the IRS “to apply the same set of processing rules to recipients who had filed a 2018 return but not yet a 2019 return.” After being informed of the situation, the Department of the Treasury coordinated with the IRS to reverse the previous determination and define payments to decedents as improper.

Additionally, the Social Security Act only provides the IRS access to the Social Security Administration’s death records. However, it does not give access to the Department of the Treasury and Bureau of the Fiscal Service, which handle payment distribution. In response to these improper payments, the GAO suggests an amendment to the Social Security Act to provide access and mandate its use for future payments. Although this would not have stopped the initial payments that resulted from the IRS counsel’s legal decision, it will assist the integrity of future payments and act as a safeguard.

3. Incorporate GAO formula into Medicaid’s benefit calculations

Based on historical observations, the Federal Medical Assistance Percentage (FMAP), which dictates the amount of state funding towards Medicaid services the federal government matches, has been insufficient during economic downturns. Since it is calculated based on the state’s per capita income, the current FMAP formula fails to adequately account for present conditions. Attempts to temporarily increase funds under FMAP in these situations have been slow.

Since the Families First Coronavirus Response Act allocates supplemental temporary funding to states through the FMAP, the GAO has constructed a formula that aims to assist states early in the downturn and provide sufficient funding based on their individual needs. This formula will initiate when there has been a persistent decrease in the states' employment-to-population (EPOP) ratio, which is a purposefully easily accessible data point. In addition, its calculations integrate the below variables into its allocation of funding to states, making it more dynamic.

- Increases in unemployment, as a proxy for changes in Medicaid enrollment;
- Reductions in total wages and salaries, as a proxy for changes in states' revenues

GAO Recommendations for Administration Consideration

1. Mandate the Department of Labor, Small Business Administration, and Department of Treasury to disseminate information to state unemployment agencies regarding the PPP loans and potential for incorrect payments

The interaction between the newly introduced Unemployment Insurance programs and the Paycheck Protection Program (PPP) has resulted in potential improper payments. The PPP provides loans to small businesses that can be forgiven in exchange for rehiring or retaining employees, while Unemployment Insurance programs provide relief to newly unemployed individuals. Situations may arise where an individual receives both wages paid by employers that received PPP loans and payments from Unemployment Insurance. The GAO notes that the agencies have not put any safeguards in place to avoid these situations and that the Department of Labor has failed to provide guidance to state unemployment agencies regarding these risks. Therefore, it recommends that the Department of Labor go beyond its broad disclosure to state unemployment agencies about the potential for fraud in these programs and specifically inform them of the risks associated with these two programs and steps to mitigate their likelihood.

2. Request that the Internal Revenue Service examine low-cost ways for improper recipients to return impact payments

The speed with which economic impact payments were distributed, over $147 billion consisting of 81 million payments in the two weeks following the CARES Act enactment, led to a number of improper payments. As previously mentioned, there have been issues with these payments being sent to deceased recipients. Other examples of fraudulent payments include payments to incarcerated individuals, false tax filers, and identity theft.

The IRS has worked to instruct incorrect recipients on how to return payments, including advertising the improper payment return procedure on its website, disclosure on the physical letters containing check payments regarding returning payments made to decedents, and working with federal and state prisons to return payments made to incarcerated recipients. However, the GAO notes that the IRS has failed to take further steps and urges greater outreach, including potentially sending letters to a group of identified incorrect recipients containing specific instructions. The GAO notes that the outreach should be based on "intended audience, availability of information, and cost to communicate information."

3. Require the Small Business Administration to construct plans to increase robustness of the PPP loans aimed to "ensure program integrity, achieve program effectiveness, and address potential fraud, including in loans of $2 million or less."

The Paycheck Protection Program (PPP) has been quickly implemented and resulted in the disbursement of $512 billion, approximately 76% of the entire budget, consisting of 4.6 million loans as of June 12, 2020. However, the speedy deployment of this program has led to a number of significant issues including haphazardly disclosing details of the program such as eligibility, overreliance on borrower certification by lenders, and lack of oversight procedures for loans above and below the $2 million threshold which states that loans smaller than $2 million are afforded less oversight regarding eligibility and forgiveness.

These issues as well as other PPP oversight measures are further elaborated in this YPFS blog post.

Evolving Lessons from the Interventions

Stemming from its observations and recommendations, the GAO described four key evolving lessons shown below for consideration during future interventions. The interconnection between the GAO's high-level "evolving lessons" and the aforementioned recommendations demonstrates the shortcomings of current programs, ways to improve current programs, and lessons learned for the future.

1. Establish clear goals and define roles and responsibilities.
2. Provide clear, consistent communication.
3. Collect and analyze adequate and reliable data to drive future decisions..
4. Establish transparency and accountability mechanisms.

Keying off these lessons, the report concludes with analysis of, and recommendations regarding the government's structural framework for responding along with a further detailed analysis of dozens of specific programs.