



Department of Justice

**STATEMENT OF THE
U.S. DEPARTMENT OF JUSTICE**

**WILLIAM HUGHES
ASSOCIATE DEPUTY ATTORNEY GENERAL
OFFICE OF THE DEPUTY ATTORNEY GENERAL**

AND

**CRAIG CARPENITO
U.S. ATTORNEY FOR THE DISTRICT OF NEW JERSEY**

BEFORE THE

**COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE**

FOR A HEARING ENTITLED

**“COVID-19 FRAUD: LAW ENFORCEMENT’S RESPONSE TO THOSE
EXPLOITING THE PANDEMIC”**

PRESENTED

JUNE 9, 2020

**WILLIAM HUGHES
ASSOCIATE DEPUTY ATTORNEY GENERAL**

**CRAIG CARPENITO
UNITED STATES ATTORNEY FOR THE DISTRICT OF NEW JERSEY**

**U.S. DEPARTMENT OF JUSTICE
JOINT STATEMENT
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**THE UNITED STATES SENATE COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C.
FOR A HEARING ENTITLED
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THE PANDEMIC.”**

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Good morning Chairman Graham, Ranking Member Feinstein, and members of the Committee.

Thank you for inviting us to appear before you today to discuss the Department of Justice’s (the Department) efforts to detect and prosecute those who seek to exploit the COVID-19 pandemic and the economic dislocation it has caused for personal financial gain. We have been tasked by the Attorney General and Deputy Attorney General to lead the Department’s Hoarding and Price Gouging Task Force (Mr. Carpenito) and to coordinate more generally the Department’s response to criminal conduct relating to the COVID-19 pandemic (Mr. Hughes). We want to thank the Committee for its attention to this issue and to the good work of the Department to protect the safety and security of our nation during this unprecedented crisis.

The Department is committed to detecting, investigating, and prosecuting wrongdoing related to the crisis. The Department has received reports of, is investigating, and has already commenced prosecutions of individuals and businesses using the crisis to seek windfall profits at the expense of public safety and the health and welfare of the American people, from the sale of fake cures for COVID-19 online, hoarding and price gouging with respect to critical medical supplies, and defrauding the CARES Act economic programs.

To be clear, the Department will not tolerate any bad actors who seek to treat the pandemic as an opportunity to defraud their fellow citizens or the government. In addition to the work of the task force charged with addressing hoarding and price gouging, the Department is also engaged in an effort to detect and counter fraud as well as price-fixing and other forms of market manipulation that constitute violations of antitrust law. The Department’s attorneys work side-by-side with the Federal Bureau of Investigation (FBI) and other investigative partners from a variety of federal, state, and local agencies.

Prosecuting Hoarding and Price Gouging under the Defense Production Act

Hoarding and price gouging, in particular, have the added effect of inhibiting frontline healthcare professionals, essential workers, and the public from acquiring the supplies they need to protect themselves from contracting the virus. The limited supplies of these crucial products, and associated reports of hoarding and price gouging, prompted the signing of an Executive Order by the President invoking authority under the Defense Production Act (DPA) and the subsequent formation of the anti-hoarding, anti-price gouging task force led by Mr. Carpenito.

As you are undoubtedly aware, the DPA confers broad authority on the President to combat hoarding and price gouging.¹ Under Section 101(a)(1) of the DPA, the President may require parties to accept and perform contracts deemed necessary to the national defense. Under Section 101(a)(2), the President may allocate materials, services, and facilities in such manner as deemed necessary or appropriate for the national defense. Under Section 102, the President may prohibit hoarding scarce materials in excess of the reasonable demands of business, personal or home consumption, or for the purpose of resale at prices in excess of the prevailing market price. The DPA also gives the President a range of administrative and civil enforcement tools to enforce compliance with the Act.

Section 101(b) of the DPA provides the mechanism for how the President triggers his authority under section 101(a) of the DPA. Subsection (b) provides that the President must find that (1) the material at issue “is a scarce or critical material essential to the national defense,” and (2) “the requirements of the national defense for such material cannot otherwise be met without creating a significant dislocation of the normal distribution of such material in the civilian market to such a degree as to create appreciable hardship.”²

In Executive Order 13909, issued on March 18, 2020, the President made the findings prescribed by subsection (b), thereby triggering his Section 101(a) authority. Specifically, the President determined that the “health and medical resources needed to respond to the spread of COVID-19, including personal protective equipment and ventilators, meet the criteria specified in section 101(b)” of the DPA. Executive Order 13909 further confers on the Secretary of Health and Human Services (HHS) the President’s authority under Section 101(a) “to require performance of contracts or orders (other than contracts of employment) to promote the national defense over performance of any other contracts or orders” and “to allocate materials, services, and facilities as deemed necessary or appropriate to promote the national defense,” with respect to “all health and medical resources needed to respond to the spread of COVID-19 within the United States.” The order also delegates to the Secretary of HHS the various implementation and enforcement authorities under Section 101 of the DPA with respect to health and medical resources needed to respond to the spread of COVID-19. This Executive Order thus authorizes the federal government to require the sale of needed resources either to the government or to any other party it deems appropriate.

In Executive Order 13910, issued on March 23, 2020 the President declared it the policy of the United States to prevent the hoarding of health and medical resources essential to

¹ See 50 U.S.C. § 4501 *et seq.*

² 50 U.S.C. § 4511(b).

combatting the spread of COVID-19. That order delegated to the Secretary of HHS the President's authority under Section 102 to designate materials as scarce for the purpose of prohibiting the hoarding or price gouging with respect to such materials. In Executive Order 13911, issued on March 27, 2020, the President delegated the same authority to the Secretary of Homeland Security.

On March 25, 2020, the Secretary of HHS published a notice in the *Federal Register* in which he designated fifteen categories of health and medical resources as scarce. That notice acknowledged that it is the policy of the U.S. that health and medical resources needed to respond to the spread of COVID-19, such as personal protective equipment (PPE) and sanitizing and disinfecting products, are appropriately distributed, and stated that that policy furthered the goal of protecting the Nation's healthcare system from undue strain. The materials designated as scarce include respirator face masks like the N95 mask, ventilators, sterilization services, medical gowns, Tyvek® suits, face shields, surgical masks, and surgical gloves. This notice triggered the criminal prohibitions of Section 102 of the DPA. The designations are to be periodically reviewed by HHS and are set to expire after 120 days unless a superseding notice is published.

To carry out prosecutions for violations of the criminal prohibitions under the DPA, the Attorney General announced to the Department the formation of a task force to combat hoarding and price gouging. The Attorney General appointed Mr. Carpenito to lead the task force. He further instructed each U.S. Attorney's office and the relevant Department litigating components, particularly the Antitrust Division, to designate experienced attorneys to serve as members of and provide support to the task force.

The task force's primary mission is to identify, investigate, and prosecute instances of illegal hoarding of the critical medical supplies designated by HHS. Section 103 of the DPA criminalizes the conduct prohibited by Section 102. Every violation of Section 103 requires proof of two general elements: first, that the defendant actually did something expressly prohibited, or failed to do something expressly required, by either the DPA itself, or by any rule, regulation, or order issued under the DPA; and second, that the defendant did so willfully, meaning with knowledge that his conduct was generally unlawful. Section 103 imposes criminal penalties for willful violations of the DPA and of regulations and orders issued under the Act that include up to a \$10,000 fine and imprisonment of no longer than one year for each offense.

The violations of the DPA that this task force primarily investigates are violations of Section 102 of the DPA. A willful violation of Section 102 requires proof of at least three elements in addition to the elements set forth above: first, that the defendant accumulated materials; second, accumulation of at least some of the materials took place after the materials were designated in the *Federal Register* as scarce and important to the national defense; and third, that the defendant accumulated the materials either (a) in excess of his or her reasonable needs of business, personal, or home consumption; or (b) for the purpose of resale at prices in excess of prevailing market prices.

Any charging decisions the Department makes under the DPA will take into account the larger context of the current public health crisis. The decisions the Department makes to open

investigations or to bring charges are intended to help the public health response, not hinder it. This means that, as a practical matter, the task force is focused on profiteering. We recognize that many established manufacturers and distributors of PPE have not meaningfully increased their prices since the start of the pandemic. We understand this because some of their prices are publicly available. 3M, for example, has published a price list for the many different models of N95 masks it manufactures.³ According to 3M, most of their N95 respirators should cost an end-user less than \$2.

There are resellers out there, however, who are charging substantially higher prices than these traditional market participants. When the task force sees substantially higher prices, it inquires whether the legitimate costs of the reseller are high. If, in order to turn any profit or simply break even, the reseller must set a high resale price, even a price much higher than other transactions in the market, the fact that the reseller is not profiteering is important for us to consider. It is likewise important if the reseller's costs are not particularly higher than the costs a traditional distributor incurs, but the reseller nevertheless demands a resale price substantially higher than the traditional price for the same goods. The purpose or effect of such a price is to allow that reseller to capture a profit margin that is substantially higher than what resellers generally earned prior to crisis, or are even generally earning now.

The Department's efforts have already yielded substantial results. On April 2, 2020, the Department announced the distribution of hoarded personal protective equipment (PPE), including hundreds of thousands of N95 respirator masks, to those on the frontline of the COVID-19 response in New York and New Jersey. The FBI discovered the supplies on March 30, 2020, during an investigation coordinated by the task force. The task force alerted HHS, which used its authority under the DPA to order that the supplies be sold to the U.S. In addition to the N95 respirator masks, the Department was seized a cache of hundreds of thousands of medical-grade-gloves, surgical masks, gowns, and other medical supplies. We understand that HHS was able to immediately collect that PPE and redistribute it to state and local authorities for further distribution to front line healthcare providers.

Just two weeks ago, the Department announced hoarding and price gouging charges against a man in New Jersey who allegedly attempted to defraud New York City into paying him approximately \$45 million for PPE masks at excessive prices that he did not possess and was not authorized to sell, and also brought similar charges against a licensed pharmacist in New York who allegedly sold N95 respirators to customers for up to 50% more than he paid to acquire them. These case both involved other criminal charges, including wire fraud and health care fraud.

In addition to hoarding and price gouging, the task force also is focused on identifying counterfeit and misbranded PPE imported into the U.S. from abroad. The task force has been coordinating with the FDA and the Consumer Protection Branch of the Department's Civil Division when such situations present themselves.

³ Available at <https://multimedia.3m.com/mws/media/18036700/fraudulent-activity-price-gouging-and-counterfeit-products.pdf>.

Combatting Fraud and Abuse

In addition to the work of the task force, U.S. Attorneys' Offices and many Department components, including the Criminal Division and the Civil Division, are combatting fraud relating to COVID-19.

On March 16, 2020, the Attorney General issued a memorandum directing every U.S. Attorney's Office "to prioritize the detection, investigation, and prosecution of all criminal conduct related to the current pandemic." Within days, each of the 94 U.S. Attorneys' Offices identified and appointed one prosecutor to serve as the office's Coronavirus Coordinator to ensure that those cases were given the highest priority.

Assistant United States Attorneys across the nation are committed to the mission of combatting fraud relating to COVID-19, and they work with lawyers throughout the Department to bring to bear all the criminal and civil tools necessary to investigate, prevent, and prosecute sales of fraudulent PPE and COVID-19 treatments, cures, and tests; the use of stolen identities to obtain health care, Economic Impact Payment, unemployment, or other government benefits; and loan fraud, bank fraud, money laundering, and aggravated identity theft relating to CARES Act funds. The U.S Attorneys' Offices work with every major law enforcement agency to investigate and prosecute the fraud arising out of the pandemic; they often pair with the Criminal Division and the Civil Division to ensure that they are using every tool available to prevent and prosecute the fraud. They also have leveraged and have further strengthened relationships with State and local law enforcement counterparts in their districts, leading to more effective enforcement and more successful prosecutions.

The Criminal Division Fraud Section, working closely with the FBI and the Small Business Administration (SBA), has been focusing meaningful investigative efforts on fraud relating to the CARES Act's Paycheck Protection Program (PPP). The PPP authorizes up to \$659 billion in forgivable loans of up to \$10 million each to small businesses, nonprofits, veterans organizations, and tribal business concerns to cover employee paychecks and certain non-payroll costs during the crisis. As of June 3, 2020, the Department's prosecutors have already brought six cases charging fraud in connection with PPP loan applications:

U.S. v. Yates (Eastern District of Texas)

- Yates was charged with wire fraud, bank fraud and false statements for two fraudulent applications seeking over 5 million dollars in PPP loans from two different lenders. Falsely claiming to have hundreds of employees when in fact he had none, Yates allegedly used a publicly available random-name generator on the Internet to create lists of purported employees, and submitted them along with forged tax documents.

U.S. v. Fayne (Northern District of Georgia)

- Fayne was charged with bank fraud stemming from a PPP loan he obtained in the name of Flame Trucking with claims that he had 107 employees and an average monthly payroll of \$1,490,200. Fayne allegedly obtained a PPP loan over \$2 million and then

used over \$1.5 million of the proceeds to purchase \$85,000 in jewelry, including a Rolex Presidential watch, a diamond bracelet, and a 5.73 carat diamond ring, and to pay \$40,000 for child support.

U.S. v. Benjamin Hayford (Northern District of Oklahoma)

- Hayford was charged with wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA, in connection with allegedly fraudulently applications submitted to multiple banks seeking about \$4.4 million in PPP loans. As alleged, while Hayford certified that his company was in operation as of February 15, 2020, the company received its IRS Employer Identification Number on March 30, 2020 and registered with State of Texas on April 1, 2020. In addition, while the loan applications allegedly represented an average monthly payroll of approximately \$1.7 million for 247 employees, the supporting documentation allegedly lacked any employee information aside from internal employee numbers, and also changed representations as to whether they were contract employees or W-2 employees.

U.S. v. Rai (Eastern District of Texas)

- Rai was charged with wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA for fraudulently seeking more than \$10 million in PPP loans from two banks. In his applications, Rai fraudulently claimed to have hundreds of employees, when there were no records of Rai or his purported business paying employee wages or records of revenues from the relevant time period.

U.S. v. Staveley & Butziger (District of Rhode Island)

- Staveley and Butziger were charged with conspiring to seek over \$530,000 in PPP loans, falsely claiming to have dozens of employees earning wages at four business entities. Staveley allegedly claimed he had dozens of employees at three restaurants, two of which were not open at the time, and one of which Staveley had no role in or ownership. Butziger allegedly sought a PPP loan as the owner of an unincorporated entity named Dock Wireless with false claims that he had seven employees on Dock Wireless' payroll.

U.S. v. Sadleir (Central District of California)

- Sadleir was charged with fraudulently filing bank loan applications for a film production company that sought more than \$1.7 million dollars in forgivable PPP loans. Sadleir allegedly obtained the forgivable loans by falsely representing that the funds would be used to support payroll expenses, when, in fact, Sadleir intended to use and did use a significant portion of the funds for personal and non-business-related expenses.

In addition, the Criminal Division has also engaged in outreach to agencies tasked with implementing and overseeing CARES Act funds to design programs to detect and deter fraudulent conduct in the first instance. They are also coordinating with investigative agencies to identify key indicia of COVID-19/CARES Act related fraud schemes and to make sure

information about emerging patterns and practices of fraudsters are shared across the relevant law enforcement community. Moreover, the Criminal Division is working closely with General Services Administration OIG, Department of Defense OIG, and Department of Homeland Security OIG, to ensure that taxpayers are not defrauded as the government seeks to procure large quantities of necessary equipment and services on an urgent timeframe.

The Criminal Division has also assumed a leadership role in identifying and combating health care fraud trends emerging during the crisis, including by chairing a working group with FBI, HHS Office of Inspector General, and other law enforcement partners. Additionally, the Fraud Section has assigned 25 prosecutors to prosecute COVID-19 cases across the country, directed its Data Analytics Group to prioritize analysis of COVID-19-related billing schemes, and retained forensic accounting and other experts that will assist in investigations and prosecutions. These efforts have already led to prosecutions, including charges against a defendant in the Middle District of Florida, who, among other offenses, conspired to be paid kickbacks on a per-test basis for COVID-19 tests, provided that those tests were bundled with Respiratory Pathogen Panel tests, which reimburse at a far higher rate than COVID-19 tests.

Since February, criminal and nation-state cyber actors have been increasingly targeting U.S. pharmaceutical, medical, and biological research facilities to acquire or manipulate sensitive information, to include COVID-19 vaccine and treatment research amid the evolving global pandemic. We have also seen various forms of fraudulent activity seeking to capitalize on the attention and concern that the pandemic demands and creates, including scam websites that are designed to look like legitimate charities, government agencies, healthcare organizations, or COVID-related information sources, but which fraudulently solicit donations, trick users into revealing passwords or other personal information, or distribute malicious code. The Criminal Division's Computer Crime and Intellectual Property Section and the National Security Division are working with investigative agencies and U.S. Attorneys' Offices to combat COVID-related cybercrime and intellectual property violations, particularly those that affect the healthcare sector.

The Department has identified a variety of ongoing or potential fraudulent schemes. These include:

- Medicare beneficiaries receiving fraudulent calls, texts, and emails seeking to have the recipients disclose their personally identifiable information (PII) (*e.g.*, social security numbers, dates of birth, and bank account routing and account numbers) under the auspices of confirming eligibility for COVID-19 tests, and then using that PII to bill health insurance programs for medically unnecessary, or not provided, services or equipment.
- Medical professionals offering free COVID-19 testing to obtain Medicare beneficiary information that can then be used to submit medical claims for unrelated and medically unnecessary – and far more expensive – tests or services, as well as the payment of kickbacks for referrals for such testing.

- Social media scams fraudulently seeking donations or claiming to provide COVID-19 relief funds if the recipient enters his or her bank account information.
- Scammers representing that they are acting on behalf of government agencies, including the SBA, U.S. Treasury, and other entities, in order to obtain money from individuals.
- Robocalls making fraudulent offers to sell respiratory masks with no intent of delivery.
- Sales of counterfeit or fake testing kits, cures, “immunity” pills, and protective equipment.
- Seeking donations fraudulently for illegitimate or non-existent charitable organizations.

Federal prosecutors around the nation have undertaken investigations and have brought, or anticipate bringing, charges in connection with all of these fraud schemes.

In addition, Department attorneys are focused on CARES Act fraud schemes connected to the Economic Impact Payments (EIP) program and state-sponsored unemployment benefit payments. The Department has received complaints of aggravated identity theft by perpetrators, including those overseas, who file false claims for EIP and unemployment benefits. The money is often routed through bank accounts and debit cards of third parties here in the U.S. From there, the proceeds are transferred to the perpetrators, many of whom are overseas.

The Department’s investigations into this conduct involve multiple law enforcement agency partners. To date, federal law enforcement has flagged payments and recovered millions of dollars before the money has left the country, and we and federal investigative agencies are working toward pursuing all the perpetrators, including those overseas. In order to prosecute perpetrators of these schemes, we can charge wire fraud, aggravated identity theft, and money laundering, among other crimes.

Consumer Protection

The Consumer Protection Branch of the Civil Division has taken action in federal court to combat fraud related to the COVID-19 pandemic by seeking to enjoin activity under Section 1345 of Title 18 of the United States Code to prevent harm to potential victims of fraudulent scams. For instance, on March 21, 2020, the Department filed suit in the Western District of Texas seeking to enjoin the operations of a website fraudulently claiming to sell COVID-19 vaccine kits purported to be from the World Health Organization. As there unfortunately is not yet a COVID-19 vaccine, the court promptly granted the Department’s request and issued a temporary restraining order requiring that the registrar of the fraudulent website immediately take action to block the public from accessing it.

Since March, the FBI’s Internet Crime Complaint Center (IC3) has received and reviewed thousands of complaints related to COVID-19 scams, referring complaints relating to websites or advertisements for fake COVID-19 vaccines and cures, fraudulent charities, and

malware to the Consumer Protection Branch for review and, if warranted, action. As a result of the ongoing cooperative efforts between federal, state, and local law enforcement, and a number of private-sector companies, including multiple Internet domain providers and registrars, the FBI Cyber Division's Cyber Initiative and Resource Fusion Unit has sent notifications on 1,000 domain names related to COVID-19 fraud, and over 800 of these domain name registrations have been suspended or otherwise mitigated. The Consumer Protection Branch, in coordination with the Food and Drug Administration (FDA), has also filed several enforcement actions seeking preliminary relief in order to protect consumers from illegal and potential harmful products being offered to treat COVID-19. These enforcement actions seek to swiftly shut down individuals and businesses selling unapproved products with misleading efficacy claims, products that are not only potentially dangerous but also may prevent those suffering from COVID-19 from receiving the healthcare they need. Federal district courts have agreed with the Department about these predatory schemes and have enjoined the unlawful sale of potentially dangerous products in several cases, including:

U.S. v. Genesis II Church of Health and Healing (Southern District of Florida)

- On April 8, 2020, the FDA and the Federal Trade Commission (FTC) issued a Warning Letter to Genesis and its principals notifying them that, by selling a product called Miracle Mineral Solution and claiming that it will cure, mitigate, treat, or prevent COVID-19, Alzheimer's, autism, brain cancer, HIV/AIDS, and multiple sclerosis, they are violating federal law by, among other things, distributing unapproved new drugs and misbranded drugs in interstate commerce. Despite this warning, Genesis continued to sell this product and expressly stated that they would not take corrective action. As a result, on April 17, 2020, the Department filed suit to enjoin Genesis from selling Miracle Mineral Solution, and the U.S. District Court for the Southern District of Florida promptly entered a temporary injunction halting its sale.

U.S. v. Purity Health and Wellness Center (Northern District of Texas)

- The Department filed suit to enjoin the Purity Health and Wellness Center (Purity) from fraudulently touting its "ozone therapy" treatment as a COVID-19 treatment. Purity and its principals agreed to be bound by a permanent injunction barring them from representing that their "ozone therapy" could be used to treat or cure COVID-19.

United States v. Gordon Pedersen, My Doctor Suggests LLC, and GP Silver LLC (District of Utah)

- The Department filed suit seeking to enjoin Pedersen, and his companies, from continuing to make false and misleading claims that Alkaline Structured Silver products, as sold by Pedersen, as a protection against and a treatment for COVID-19. The court promptly entered an injunction halting the sale of the fraudulent COVID-19 treatment.

United States v. Xephyr LLC, d/b/a N-Ergetics (Eastern District of Oklahoma)

- The Department filed suit seeking to enjoin N-Ergetics from selling an unapproved colloidal silver product purporting to cure, mitigate, or treat COVID-19, as well as other diseases including pneumonia, AIDS, and cancer. The district court entered a temporary restraining order halting the unlawful sales, which prompted the defendants to immediately take down their sales site. In addition, the defendants offered refunds to customers in response to the enforcement action.

United States v. Parris (District of Columbia)

- The Consumer Protection Branch, working with the U.S. Attorney's Office, charged a Georgia man in federal court with fraud for attempting to sell millions of nonexistent respirator masks to the Department of Veterans Affairs in exchange for large upfront payments.

Antitrust Enforcement

The Department is also aware of the potential for firms to take advantage of the pandemic to engage in anticompetitive conduct such as price fixing and bid rigging. The Department issued a press release announcing its intention to hold accountable anyone who violates the antitrust laws of the U.S. in connection with the manufacturing, distribution, or sale of public health products such as face masks, respirators, and diagnostics. The Department is also watchful for collusive practices in the sale of such products to federal, state, and local agencies. In particular, the Department's Procurement Collusion Strike Force (PCSF) is an interagency partnership leading a coordinated national response to combat antitrust crimes and related fraudulent schemes in government procurement, grant, and program funding at all levels of government. Deterrence and early detection of misconduct will be the PCSF's top priorities to help these agencies safeguard their procurement, grant, and program funding processes from collusion and corruption.

Additionally, the Department recognizes the risk to workers from anticompetitive conduct by employers. The Antitrust Division therefore issued a joint statement with the FTC noting that the nation's antitrust enforcers are closely monitoring employer collusion to disadvantage workers during the pandemic. Specifically, the agencies announced that they will protect competition for workers on the frontlines of the COVID-19 response by enforcing the antitrust laws against those who seek to exploit the pandemic to suppress or eliminate competition for compensation, benefits, hours worked, and other terms of employment.

Finally, the Department issued a joint statement with the FTC announcing an expedited procedure for reviewing proposed conduct by industry aimed at addressing responses to COVID-19 and determining whether they intend to take antitrust action in response. To date, the Department has issued three letters reviewing proposed conduct: one addressing collaborative efforts to increase the manufacturing and distribution of PPE; one aimed at increasing access to pharmaceuticals to treat the coronavirus; and a third aimed at addressing challenges faced by hog farmers.

Child Exploitation

The COVID-19 pandemic has raised other problems beyond fraud and other economic harms. The Department is gravely concerned that COVID-19 is leading to a higher incidence of online child sexual exploitation, because both offenders and children are spending more time at home and online, and because the use of videoconference platforms has increased.

The best signal we have of the growing threat is chatter we are seeing on the Dark Net, where offenders are able to speak freely. The offenders clearly see COVID-19 as creating opportunities for child exploitation. As one individual wrote on March 21, 2020, “is nobody seeing the bright side of this pandemic?? Schools are closed so kids are at home bored ... that means way more livestreams and its very clear moderators aren’t working right now since I’ve seen 3 hour streams go unbanned over the last few days where girls do whatever the f--- they want. What a time to be alive.”

The FBI recently issued a warning about “Zoom disruptions,” where individuals enter meetings taking place on videoconference platforms and broadcast child sexual abuse material. According to the FBI, in the last three months they have received more than 300 reports of Zoom disruptions throughout the U.S. and in other countries.

The Department is working with a variety of partners to try to mitigate the risk to children. For example, the FBI, in conjunction with U.S. and international law enforcement partners, has aggressively pursued leads relating to egregious child exploitation crimes, including the arrest last month of a defendant accused of enticing nearly a dozen boys online to send him sexually explicit imagery of themselves.

We have also strongly supported efforts to prevent these crimes from occurring in the first place. The Department, along with our Five Eyes partners and the tech industry developed PSAs targeted at caregivers and children to make them aware of the increased risk of child sexual exploitation. In addition, the Department has a dedicated web page with information and resources related to COVID-19 and online child sexual exploitation, including how to report such crimes. The FBI is encouraging individuals to report Zoom disruptions, and has provided guidance on how to prevent such attacks.

National Center for Disaster Fraud

The Department wants to catch perpetrators of COVID-19-related crimes as quickly as possible, so we have set up a hotline and encouraged people to call if they believe they, or someone they know, are victims of a COVID-19 scam. The hotline is set up within the Department’s National Center for Disaster Fraud (NCDF). For approximately 15 years, the NCDF has been dedicated to improving the detection, prevention, investigation, and prosecution of criminal conduct related to natural and man-made disasters and other emergencies, such as COVID-19. As a national coordinating agency within the Department of Justice, the NCDF has the resources, training, and expertise to quickly and effectively ensure that all complaints are appropriately disseminated to the relevant federal, state, or local agency for further investigation.

In the weeks since we announced the COVID-19 hotline, the Center has received thousands of contacts, most of which were addressed and referred by the hotline's automated phone system. We will be updating the National Center for Disaster Fraud's website to reflect the number of COVID-19 contacts we have received.

Conclusion

Chairman Graham, Ranking Member Feinstein, and members of the Committee, we would like to close by thanking you for this opportunity to share the good work of Department of Justice personnel all over the country to uncover and prosecute crimes associated with the COVID-19 pandemic. We look forward to answering your questions.