

Contents

Audit Report

Results in Brief	2
Background.....	4
Treasury Disbursement Processes	6
PSP1 Interim Audit Report.....	7
Paradigm Jet Management, Inc.	7
Audit Results.....	8
Finding 1 Inaccurate Compilation of the PSP1 Application Awardable Amount	9
Initial Understatement on PSP1 Application	9
Corporate Officer Compensation	10
Reimbursement of Expenses	11
Independent Contractor Compensation.....	12
Matter of Concern.....	15
Improper Employer Tax Reporting to the IRS.....	15
Recommendation.....	17

Appendices

Appendix 1: Objective, Scope, and Methodology	19
Appendix 2: Schedule of Monetary Benefits	23
Appendix 3: Treasury Management Response	24
Appendix 4: Report Distribution	27

Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COVID-19	Coronavirus Disease 2019
DOT	Department of Transportation
GAO	Government Accountability Office
Guidelines	Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors
IRS	Internal Revenue Service
OIG	Treasury Office of Inspector General
Paradigm	Paradigm Jet Management, Inc.
PSP1	Payroll Support Program, CARES Act

PSP2	Payroll Support Program Extension, Consolidated Appropriations Act, 2021
PSP3	Payroll Support Program 3, American Rescue Plan Act of 2021
S&R	Saggar & Rosenberg, P.C.
Treasury	Department of the Treasury

of company workers is included in the “Matter of Concern” section of this audit report.

For the two workers with an operational control agreement, Paradigm management stated that it considers these individuals to be company employees and that it did not believe that excluding them from employer tax reporting to the IRS would preclude them from PSP1 eligibility.

For the one worker without an operational control agreement, Paradigm management stated that this individual was not considered as a company employee.

The inclusion of independent contractor compensation resulted in an overstatement of \$ [REDACTED] in requested amounts, as shown below in Table 5.

Table 5. Independent Contractor Compensation

Month	Salaries and Wages	Benefits	Total
April 2019	\$ [REDACTED]	\$-	\$ [REDACTED]
May 2019	\$ [REDACTED]	\$-	\$ [REDACTED]
June 2019	\$ [REDACTED]	\$-	\$ [REDACTED]
July 2019	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
August 2019	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
September 2019	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
TOTAL OVERSTATEMENT	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Source: S&R Calculation of the Awardable Amount

Based on our calculation, the total compensation that is eligible for PSP1 financial assistance is \$ [REDACTED] and Paradigm requested \$ [REDACTED], which resulted in overstatement of \$90,822. See Table 6 below.

Table 6. Awardable Amount Comparison

Category	W-2 Workers	1099-MISC Workers	Total
Gross Compensation Paid	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Gross Benefits Paid	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
(Less) Corporate Officers (Table 3)	\$ [REDACTED]	-	\$ [REDACTED]
(Less) Reimbursement of Expenses (Table 4)	-	\$ [REDACTED]	\$ [REDACTED]
(Less) Independent Contractors (Table 5)	-	\$ [REDACTED]	\$ [REDACTED]
Allowable Compensation	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
PSP1 Application			\$ [REDACTED]
DIFFERENCE			\$(90,822)

Source: S&R Calculation of the Awardable Amount

Since Treasury disbursed PSP1 funds pro rata for passenger air carriers at 78.2 percent of the requested awardable amount, Paradigm received an overpayment of \$71,023.

To remedy the findings listed in the prior OIG audit report,¹⁷ Treasury required PSP2 applicants to re-certify their PSP1 awardable amounts. Paradigm certified to Treasury under PSP2, that its PSP1 Application did not include corporate officer compensation. Treasury stated it relies on applicants' certifications that they did not include unallowable expenses (i.e., corporate officer compensation and employer-side payroll taxes) and no further validation checks were performed; as a result, the company likely included corporate officer compensation in its PSP2 and PSP3 financial assistance request.

¹⁷ OIG-21-025, *Interim Audit Update – Air Carrier and Contractor Certifications for Payroll Support Program (Interim Audit)*, March 31, 2021.

Matter of Concern

Improper Employer Tax Reporting to the IRS

Paradigm did not report certain compensation paid to workers on its IRS Form 941. The unreported compensation was paid to workers outside of routine weekly payroll from April 1, 2019 through September 30, 2019. It consists of (1) two workers that had an operational control agreement with Paradigm, and (2) eleven company employees that received routine payroll but were also paid bonuses or commissions outside of routine payroll that was not subject to employer taxes. The cumulative amount of payments made to these workers is shown below in Table 7.

Table 7. Unreported Compensation to the IRS

Category	Amount
Operational Control Agreements	\$ [REDACTED]
Bonuses and Commissions	\$ [REDACTED]
TOTAL	\$ [REDACTED]

Source: S&R Calculation of the Awardable Amount

Employees with Operational Control Agreements

IRS Publication 15-A, *Employer's Supplemental Tax Guide*, "2. Employee or Contractor" provides employers with guidance on whether individuals should be classified as an employee or independent contractor. The publication goes on to state that *"If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you're liable for employment taxes for that worker."*

The two operational control agreements, which were effective between the workers and Paradigm beginning October 13, 2010 and April 4, 2019, respectively,¹⁸ state that each worker is an exclusive, full-time employee of Paradigm and that Paradigm controls the exclusive direction and control of the worker performing his/her duties. However, Paradigm's exclusion of such

¹⁸ Compensation paid by Paradigm to these workers outside of the April 1, 2019 through September 30, 2019 scope period was not reviewed or quantified.

compensation on its IRS Form 941 indicates that these workers were treated as independent contractors for tax purposes. Based on our work in this audit, we believe that the status of these employees are in question, and Paradigm management should seek an official opinion from the IRS regarding the treatment of these workers as either independent contractors or employees for purposes of federal employment taxes and income tax withholding.¹⁹

Employees Paid Bonuses and Commissions

Paradigm employees who receive payments through routine payroll receive an IRS Form W-2, *Wage and Tax Statement*, and their compensation is included on Paradigm's IRS Form 941 – Line 2, "Wages, tips, and other compensation". According to the Instructions for IRS Form 941 (2019), employers are to *"Enter amounts on line 2 that would also be included in box 1 of your employees' Forms W-2"*.

The General Instructions for Forms W-2 (2019), Box 1—Wages, tips, other compensation states that this box consists of *"[...] total taxable wages, tips, and other compensation that you paid to your employee during the year"*. Sub-Paragraph one states that wages, tips, and other compensation includes *"Total wages, bonuses (including signing bonuses), prizes, and awards paid to employees during the year."*

Paradigm's failure to include bonus and commission compensation on its IRS Form 941 indicates that these payments to company employees were not reported to the IRS.

Paradigm management stated that it does not pay employer taxes on any compensation paid outside of routine payroll processing. Additionally, for company employees who received bonuses and commissions outside of routine payroll, management stated that historical challenges with blending payroll processing and one-time payments led to operational challenges, so company policy was modified. Since Federal tax compliance is outside the scope of our

¹⁹ Firms and workers file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, to request a determination of the status of a worker for purposes of federal employment taxes and income tax withholding. A firm filing a Form SS-8 requesting a "worker status" determination means the firm is asking the IRS to establish if the services provided by the worker are those of an employee or an independent contractor. (<https://www.irs.gov/forms-pubs/about-form-ss-8>)

audit objective, which is described in detail in appendix 1, we will refer this matter to the Treasury Inspector General for Tax Administration.

Recommendation

S&R recommends that Treasury’s Chief Recovery Officer:

1. Seek reimbursement of the \$71,023 overpayment of PSP1 financial assistance.

Management Response

Treasury will review the findings, consider any response from the recipient, and seek recoupment of any amounts that Treasury determines have been overpaid.

S&R Comment

Management’s planned corrective actions meet the intent of our recommendation. Treasury management will need to record an estimated completion date for these actions in JAMES.

2. Review Paradigm’s requested amount for unallowable expenses under PSP2 and PSP3, and seek reimbursement for the overpayment, if applicable.

Management Response

Treasury will review awardable amounts requested under PSP2 and PSP3 and seek recoupment where appropriate.

S&R Comment

Management’s planned corrective actions meet the intent of our recommendation. Treasury management will need to record an estimated completion date for these actions in JAMES.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. A distribution list for this report is provided as appendix 4.

Saggar & Rosenberg, P.C. /s/

Appendix 1: Objective, Scope, and Methodology

Our objective was to assess the accuracy, completeness, and sufficiency of Paradigm Jet Management, Inc.'s (Paradigm) sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by the Department of the Treasury (Treasury).

The scope of our audit covered the time period from April 1, 2019 through September 30, 2019 and included the certified Payroll Support Program (PSP1) Application, sworn financial statements, tax returns, and other documentation submitted to Treasury on April 3, 2020.²⁰

To accomplish this objective, Saggat & Rosenberg, P.C. (S&R) performed the following activities during audit fieldwork conducted remotely, due to the Coronavirus Disease 2019 (COVID-19) pandemic from September 2021 through May 2022:

- Reviewed applicable Federal laws, regulations, and guidance, including:
 - *Title IV, Subtitle B, Air Carrier Worker Support, of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act);*²¹ and
 - 14 CFR, Part 241,²² *Uniform System of Accounts and Reports for Large Certificated Air Carriers*, amended August 12, 2022.
- Reviewed Treasury's policies, procedures, and guidance related to PSP1:
 - *Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors*, which included the PSP1 Application, March 30, 2020;

²⁰ Paradigm submitted the PSP1 Application and related support documentation on April 3, 2020.

²¹ P.L. 116-136 (March 27, 2020).

²² 14 CFR, Part 241 "Uniform System of Accounts and Reports for Large Certificated Air Carriers" defines "Air carrier, large certificated" as an air carrier holding a certificate issued under 49 U.S.C 41102, as amended, that: (1) operates aircraft designed to have a maximum passenger capacity of more than 18,000 pounds; or (2) conducts operations where one or both terminals of a flight stage are outside the 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands. These air carriers are required to report financial information to the Department Of Transportation. Paradigm is not a Large Certificated Air Carrier.

Appendix 1: Objective, Scope, and Methodology

- PSP1 Agreement;
 - *Question and Answer: Payroll Support to Air Carriers and Contractors*, (April 2, 2020, April 3, 2020, and April 20, 2020 versions); and
 - *Frequently Asked Questions: Application Procedures for Payroll Support to Air Carriers and Contractors*, April 3, 2020.
- Performed 100 percent testing for four of the eight sections of the PSP1 Application; specifically, the Applicant Information, Applicant Type, Awardable Amounts, and Certification sections. The other four sections were not reviewed because the Taxpayer Protection section generally applied to 241 air carriers, with exceptions; the Employment Levels, Financial Institution Information, and Additional Information sections had no impact on Treasury’s determination of recipients’ award amounts.
 - Interviewed key Treasury personnel and contracted consultant personnel engaged by Treasury to aid in its evaluation of the air carriers’ and the contractors’ certified applications and other data.
 - Interviewed Paradigm representatives responsible for the sworn financial statement. The amounts submitted in the Awardable Amounts section of the PSP1 Application were considered the sworn financial statement.
 - Reviewed sworn financial statements and documents to support the requested payroll support amount. The documentation included general ledger data, company pay registers, benefit invoices, Internal Revenue Service (IRS) Form 941 – *Employer’s Quarterly Federal Tax Return*,²³ and organizational hierarchy information.
 - Reviewed Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*²⁴ to identify the components of internal control that are significant to the audit objective. Understanding internal control within the context of an entity’s internal control framework can help auditors

²³ IRS Form 941 is a tax form that businesses file quarterly to report income taxes, Social Security taxes, and Medicare taxes they withheld from employee paychecks.

²⁴ GAO-14-704G (September 2014).

determine whether internal control deficiencies exist. We concluded that one of the five internal control components, Control Activities, as related to the Paradigm payroll system, was significant to the audit objective.²⁵ This component states that control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. To assess the controls over Paradigm's payroll system, we examined Paradigm's response to a Data Supplier Questionnaire²⁶ and interviewed Paradigm's management responsible for generating and using the data. Additional details regarding our assessment of the reliability of the data is reported in the section below.

- Reviewed GAO's *Assessing Data Reliability*²⁷ guidance, which states that a data reliability determination does not involve attesting to the overall reliability of the data or database. For this audit, the audit team has only determined the reliability of the specific data sources needed to support the findings, conclusions, or recommendations in the context of the audit objective. Paradigm prepared the PSP1 Application using information from its system of record. We reviewed accounting entries supported by payroll registers generated from the payroll system at the individual employee level, transactions paid to employees compensated outside of weekly payroll, as well as third-party vendor benefit invoices to the amounts presented in the Awardable Amounts section of the PSP1 Application.

To assess data reliability of these sources, we examined Paradigm's response to Data Supplier Questionnaire for the payroll and accounting system and interviewed Paradigm management responsible for generating and using the data. Based on our assessment, we determined that the data was sufficiently reliable to support the findings and conclusions to answer the objective of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require

²⁵ The five components in GAO's Standards for Internal Control in the Federal Government are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

²⁶ A Data Reliability Assessment is completed to assess the reliability of data originating from a system to determine if it is reliable for the purposes of the audit. The Data Supplier Questionnaire would be one of the tools used during the Data Reliability Assessment.

²⁷ GAO-20-283G (December 2019).

Appendix 1: Objective, Scope, and Methodology

that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix 2: Schedule of Monetary Benefits

According to the Code of Federal Regulations,²⁸ a questioned cost is a cost that is questioned by the auditor because of an audit finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES). The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with Section 5(b) of the Inspector General Act of 1978, as amended.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$71,023

The questioned costs represent amounts provided by Treasury under the Payroll Support Program (PSP1). As discussed in Finding 1, Paradigm Jet Management, Inc. overstated its PSP1 Application awardable amount to Treasury by \$90,822 due to the inclusion of (1) corporate officer compensation, (2) reimbursement of expenses, (3) compensation for three independent contractors, and (4) data errors. However, since Treasury disbursed PSP1 funds pro rata for passenger air carriers at 78.2 percent of the requested awardable amount, the questioned cost related to the overstated PSP1 Application is \$71,023.

²⁸ 2 CFR § 200.84 – Questioned Cost.

Appendix 3: Treasury Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 26, 2023

Deborah L. Harker
Assistant Inspector General for Audit
U.S. Department of the Treasury – Office of Inspector General
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Ms. Harker:

I write regarding the Office of Inspector General's (OIG) draft *Audit of Air Carrier Worker Support Certifications* regarding Paradigm Jet Management, Inc. (the Recipient), a recipient of funds under Treasury's Payroll Support Program (Draft Report). The U.S. Department of the Treasury (Treasury) appreciates OIG's efforts.

Background on the Payroll Support Program

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, to provide emergency assistance in response to the unprecedented challenges presented by the COVID-19 public health emergency. The CARES Act established the Payroll Support Program (PSP1) to provide financial assistance to America's passenger air carriers, cargo air carriers, and certain aviation contractors. Treasury has disbursed more than \$28 billion to over 600 businesses in PSP1, directly supporting more than 600,000 American jobs.

In December 2020, the Consolidated Appropriations Act, 2021, created the Payroll Support Program Extension (PSP2) for eligible passenger air carriers and certain aviation contractors. Treasury has disbursed over \$15 billion to over 480 passenger air carriers and contractors under PSP2. In March 2021, the American Rescue Plan Act of 2021 provided an additional \$15 billion for Treasury to make further payroll support payments to entities that participated in PSP2 (PSP3). Treasury has disbursed over \$14.5 billion to over 480 passenger air carriers and contractors under PSP3.

The CARES Act set forth two different methodologies for calculating awardable amounts under PSP1. For the largest air carriers, which received approximately 89% of the total PSP assistance, the PSP1 amounts were based on reports the carriers had filed with the U.S. Department of Transportation under 14 C.F.R. part 241. In contrast, the statute required Treasury to provide financial assistance to smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits that they paid to their employees during the time period from April 1, 2019, through September 30, 2019. For these smaller companies, the PSP1 application and Treasury's guidelines made clear that the awardable amounts should not include, *inter alia*, (1) any employer-side payroll taxes, which are not paid to employees, and (2) compensation paid to corporate officers and non-employee contractors. Before accepting PSP2 applications, Treasury

published additional guidance further emphasizing that such amounts should not be included in the companies' awardable amount calculations.¹ In both PSP1 and PSP2, Treasury required two officials of each applicant, including at least one corporate officer, to certify that the information provided in the application was correct and did not contain any materially false or fraudulent statements.

In April 2020, OIG began a series of audits of PSP1 recipients to determine whether they had properly calculated their requested awardable amounts. In March 2021, OIG issued an Interim Audit Update, notifying Treasury that a number of recipients being audited had impermissibly included, in their PSP1 applications, employer-side payroll taxes or corporate officer compensation in the calculation of the awardable amount, which may have resulted in an overstatement of the amount of PSP1 funds requested. In response, Treasury promptly took a series of remedial actions, including requiring that all PSP1 applicants receiving awards on the basis of self-certification re-certify whether their awardable amounts included employer-side payroll taxes or corporate officer compensation. Where a company informed Treasury that it had improperly included those amounts in its application, Treasury either withheld future PSP1 disbursements or began pursuing debt recoupment.

OIG's Findings and Recommendations

The Draft Report describes the work performed by OIG's contractor to determine whether the Recipient's requested awardable amount complied with the guidelines provided by Treasury. The Draft Report notes the extensive fieldwork conducted for this review between September 2021 and May 2022, to determine the accuracy of the information in the Recipient's PSP1 application submitted to Treasury, including interviewing the Recipient's management and collecting and reviewing a wide range of the company's financial records and corporate documents. OIG found that the Recipient overstated its requested awardable amounts due to the improper inclusion of corporate officer compensation, independent contractor compensation, and reimbursement of unallowable expenses. OIG recommends that Treasury (1) seek reimbursement of \$71,023 of overpayments of PSP1 assistance, and (2) review any requested amounts from the Recipient for PSP2 and PSP3 assistance to determine whether overpayments occurred.

Treasury agrees with OIG that any overpayments of PSP funds should be reimbursed. Treasury will review OIG's findings, consider any response from the Recipient, and seek recoupment of any amounts that Treasury determines have been overpaid. Treasury will also review awardable amounts requested under PSP2 and PSP3 and seek recoupment where appropriate.

* * *

¹ Because awardable amounts in PSP3 were calculated as a percentage of each company's PSP2 award, companies were not required to calculate awardable amounts for PSP3.

Treasury appreciates OIG's work on these engagements. We look forward to working with you to protect the integrity of the PSP and other recovery programs.

Sincerely,

A handwritten signature in cursive script that reads "Jessica Milano".

Jessica Milano
Chief Program Officer

Appendix 4: Report Distribution

Department of the Treasury

Treasury Secretary
Deputy Secretary
Treasury Audit Liaison
Office of Strategic Planning and Performance Improvement
Office of the Deputy Chief Financial Officer, Risk and Control
Group

Paradigm Jet Management, Inc.

President

Office of Management and Budget

OIG Budget Examiner

United States Senate

Committee on Homeland Security and Governmental Affairs
Committee on Finance
Committee on Banking, Housing, and Urban Affairs
Committee on Commerce, Science, and Transportation
Committee on Appropriations
Committee on the Budget

United States House of Representatives

Committee on Oversight and Reform
Committee on Financial Services
Committee on the Budget
Committee on Transportation and Infrastructure

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