

COVID-19 audits: third interim report

Federal measures as at 31 July 2020

Key facts

On 19 June 2020, the Federal Council announced the end of the "exceptional situation" as defined in the Epidemics Act, returning Switzerland to a "special situation". Where necessary, the emergency ordinances issued in connection with the COVID-19 crisis will be transferred into federal law. As a result, it will be possible to provide support "to the extent necessary to combat the COVID-19 epidemic".¹

In this third interim report on the audits carried out by the Swiss Federal Audit Office (SFAO), the focus is on the latest results and the fight against abuse.

Sufficient funds are available

As at 24 June 2020, the Confederation had committed CHF 72.2 billion in agreed expenditure, sureties and guarantees for 2020, aimed at fighting the pandemic itself or managing its knock-on effects.² The funds can be divided into three categories, although the distinction between them is not always clear.

CHF 26.1 billion has been earmarked for financial assistance and contributions; as at the end of July 2020, slightly more than CHF 7 billion had been drawn down.

The credits for the procurement of medical materials and medicines were budgeted at around CHF 2.55 billion, of which just under CHF 500 million has been used.

The Confederation has made CHF 43.5 billion available for sureties, guarantees and loans; depending on the level of default risk, a large proportion of this should remain in the federal coffers or flow back there.

Previous audit findings largely confirmed

In the **cultural** arena, around 11,000 applications had been received as at 3 August – 2,400 more than at the last reporting date of 1 June 2020. The volume of funds requested is some CHF 395 million. Progress has been made in the processing of applications: approximately 65% of cases have now been processed, with 5,300 applications approved for a total of CHF 69 million. The SFAO and the Federal Office of Culture have diverging views on how to recognise other forms of compensation: since mid-June, it has been possible for overall compensation payments to exceed the damage caused by a COVID-19 measure. The SFAO considers this practice neither fair nor equitable, even if it is a question of "only" a few million francs.

In the area of **sport**, the number of applications made in the last two months has risen sharply, and processing has been stepped up: of the 213 applications received, decisions are outstanding on 95. As at 28 July 2020, CHF 2.1 million in non-repayable advances and CHF 9.3 million in loans had been provided. Applications totalling CHF 9 million had been

¹ Bill: <https://www.news.admin.ch/newsd/message/attachments/61792.pdf>

² <https://www.efv.admin.ch/efv/en/home/aktuell/brennpunkt/covid19.html>

rejected or revised downwards. On 1 June, new funds were made available for sports promotion: CHF 50 million in non-repayable subsidies for mass sport and competitive sport, and CHF 175 million in loans for the football and ice hockey leagues. To date, the latter have not yet been drawn down.

In the area of **childcare outside the family**, the cantons have been given more flexibility in the processing of support applications, in order to better accommodate specific individual circumstances. Even before the federal measures were introduced, some cantons already had a support system in place for this group of recipients, and they must now review these payments if they wish to benefit from the federal subsidies. Apart from the additional burden for the cantons, this will also complicate the work of the Federal Social Insurance Office, although it already has some experience with subsidising crèches.

In the case of **COVID-19 loss of earnings compensation**, there has been no significant month-on-month change in the distribution of gross daily payments and amounts transferred to self-employed persons. In just under 60% of cases, the maximum gross daily payment was CHF 80. To date, 172,000 cases have been processed and just under CHF 1.1 billion in compensation has been paid out. Of this, nearly CHF 1 billion went to self-employed persons on the grounds of business closures or cases of hardship. Regional variations have been observed.

In mid-July, the volume of **short-time working compensation** payments reached almost CHF 5 billion. In general, checks carried out at unemployment insurance offices have improved. Since the end of April, checks have been performed on compensation payments to public-law entities. One third of the 603 entities concerned had been checked by the end of July. In half of the cases processed, the cantons confirmed the positive decisions. The principle behind short-time working compensation – to ward off the threat of redundancies – should also be applied to companies that have laid employees off during the COVID-19 period.

The volume of **joint and several guarantees** has increased only slightly since the last report: as at 30 July, more than 134,000 credits amounting to some CHF 16.5 billion had been paid out; credits exceeding half a million francs accounted for only a small proportion (989 credits). It should be noted that these amounts refer solely to approved credits, rather than credits actually drawn down. The SFAO was able to expand its assessment to cover 115,300 cases with a total value of CHF 13.8 billion. As regards the mix of industry sectors, there have been no major changes in borrowers' company size (predominantly small businesses) and the market share of banks compared to the last report. The guarantee organisations have reduced their processing backlog, actively investigated suspicious cases and set up a case management system. At the time of the audit, around CHF 4.8 million had accrued in external costs for data collection and the fight against abuse.

As regards **procurement**, not much is new: the **Federal Office of Public Health**, in its role as a hub for COVID-19-related procurement, has itself entered into very few financial commitments. In order to be armed against a possible "second wave", the Federal Office of Public Health is reckoning on purchase guarantees for medicinal products of around CHF 10 million by the end of 2020. The CHF 492 million worth of orders placed by the **Armed Forces Pharmacy** do not even come close to using up the CHF 2.55 billion of COVID-19 Ordinance-related credit. Approximately 80% of the medical materials ordered in accordance with Federal Office of Public Health requirements was delivered by end-June; warehouse capacity is now exhausted and will need to be increased. The weak points in internal processing remain; work to remedy them depends on available human resources,

and still needs time. Inventory management in the SAP systems is lagging behind the actual situation, giving rise to corresponding challenges and a lack of transparency. The collection of CHF 16.2 million (as at 30 June 2020) from wholesalers for goods is working; the money is coming in. It will not be clear whether things run as smoothly for the cantons until the first invoices have been sent (they will be issued in mid-August). Currently, CHF 1.6 million is available to the Federal Office of Public Health and the Armed Forces Pharmacy for external logistics.

As regards the **airlines** Swiss and Edelweiss, the Aviation Task Force is still waiting for the support arrangements for Lufthansa Group to be finalised by the German government, among others. The Confederation has provided a deficiency guarantee amounting to CHF 79.2 million to SR Technics AG, an **aviation-related business**. The SFAO will audit the implementation of the measures and compliance with the agreed conditions after all the contracts have been concluded, and is thus receiving only irregular information about the ongoing procedure. Where appropriate, it highlights potential areas for improvement.

Joining forces to combat abuse

Anomalies, i.e. indications of unjustified claims for payment, are on the increase but are still not a mass phenomenon. It is thus all the more important to consistently investigate suspicious cases.

With regard to **joint and several guarantees**, the number of potential breaches of the Ordinance has more or less doubled since the previous report, at 859. These cases represent funds totalling CHF 217 million. The main factor here is the high number of inadmissible dividend payments. The first comparison with the commercial register has now revealed 105 borrowers that had already applied for bankruptcy at the end of June. A striking observation is the number of, sometimes very large, discrepancies between the turnover figures used for VAT calculations and those declared in the application for guarantee credits. Other areas of suspicion concern companies declared inactive and high dividend payments made shortly before the recourse to credit.

The SFAO has received some 403,000 data sets on **COVID-19 loss of earnings compensation** from the 84 compensation funds (including branch offices). There are no indications of systematic failings or abuse. Around 200 cases were passed on to the Federal Social Insurance Office for clarification. Things get interesting when there is a crossover between COVID-19 loss of earnings compensation payments and other measures that are offset against each other. However, the data on other measures (e.g. culture, childcare outside the family, sport, etc.) needs to be available in analysable form, which is currently not the case.

With regard to **short-time working compensation**, the SFAO has received 91 new notifications since the last report,³ bringing the total number of notifications since the start of the COVID-19 period to 134. Of these, 92 companies received short-time working compensation exceeding CHF 40 million. Almost all cases concerned allegations about actual employment percentages being higher than those declared for the calculation of short-time working compensation. Wholesale and retail businesses, motor vehicle and motorbike trading and repair companies, and the healthcare sector were particularly affected. The State Secretariat for Economic Affairs has been informed of a further 125 cases by the unemployment insurance

³ Via www.whistleblowing.admin.ch

offices and the Institute for Combating Economic Crime at the University of Applied Sciences and Arts Western Switzerland.⁴ The SFAO's data analyses revealed payments to a total of 100 companies that had ceased trading owing to mergers before the COVID-19 crisis. In addition, the SFAO identified a dozen companies that had been wound up as at mid-July. The State Secretariat for Economic Affairs or the enforcement authorities have already taken initial measures, but must consistently claim the refund of all inadmissible payments and prevent such cases in the future. Otherwise, the financial loss could exceed CHF 10 million, in the SFAO's estimation.

Cooperation with the **cantonal public prosecutors** is working well. In connection with pending proceedings and upon request, the SFAO informs the authorities about the kind of payments claimed. This means that the relevant offices can provide details directly and quickly. In return, the SFAO receives valuable input on patterns underlying cases of abuse for use in future data analyses.

Original text in German

⁴ Cases of fraud and abuse in connection with COVID-19 can be reported to the Institute for Combating Economic Crime via its website www.coronafraud.ch.