

# Session #60

# Fraud and Distance Education

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# Agenda

- Opening remarks
- Case Studies
  - American Public University System
  - Rio Salado College
- Potential Federal Role
- Potential Institutional Role
- The OIG Report and Recommendations
- Wrap Up, Reaction and Q&A

# The OIG Report

- What they found – Variations of the following:
  - “Ring leader” solicits identifying information from individuals (often by promising a small portion of the financial aid proceeds and/or from incarcerated individuals).
  - Ring leader completes and submits multiple financial aid applications (usually on-line using the Department’s FAFSA on the Web application) using the identifiers collected.
  - Ring leader targets institutions with low tuition (i.e. public community colleges) or institutions that offer distance education programs



# The OIG Report

- What they found – Variations of the following:
  - Ring leader applies for admission and completes registration process at “open admissions” schools where academic transcripts and test scores are not required
  - Ring leader “participates” in just enough online instruction to qualify for a disbursement of financial aid for the term or other payment period
  - Schools release financial aid credit balance, after deducting minimal institutional charges
  - Ring leader distributes proceeds to some of the individuals who provided their identifiers
  - Ring leader pockets most of the proceeds



# The OIG Report

- What they found
  - As of August 1, 2011, OIG had 100 open fraud ring investigations with 49 additional being evaluated for investigative merits
  - Since 2005, OIG has assisted in the prosecution of 215 participants in 42 different fraud rings resulting in criminal convictions and \$7.5 million in fines and restitution



# The OIG Recommendations

Type of Action	Recommendation
Legislative	<ul style="list-style-type: none"><li>• Reduce cost of attendance for those enrolled via distance</li></ul>
Regulatory	<ul style="list-style-type: none"><li>• Require institutions to verify identity of those enrolled via distance learning</li><li>• Require institutions to retain IP addresses for those engaged in distance learning courses</li></ul>



# The OIG Recommendations

Type of Action	Recommendation
Administrative	<ul style="list-style-type: none"><li>• Designate high school graduation status &amp; statement of educational purpose for verification</li><li>• Develop edits to flag potential fraud participants in the Department's Central Processing System and National Student Loan Data System</li><li>• Explore a computer matching agreement with the Federal Bureau of Prisons and State prison systems</li><li>• Establish controls that prevent multiple PINs from being delivered to a single email address without verification of identity</li><li>• Using current regulatory authority, establish repayment liabilities for fraud ring participants that are not prosecuted</li><li>• Ensure that pre-trial diversions are recognized as convictions for purposes of debarment or exclusion</li><li>• Issue Dear Colleague Letter that alerts institutions to the problem of fraud rings and reminds them of their obligations under existing regulations</li></ul>



# Steps Already Taken

- Dear Colleague Letter GEN 11-17 (October 20, 2011)
- Institutions are required to have processes to verify identity that are subject to review by the institution's accreditor (34 CFR 602.17(g))
- Verification regulations modified to permit better targeting of reviews by institutions (34 CFR 668.51-61)
- High school diploma
  - Collect on FAFSA
  - Require institutions to have a procedure in place to address apparently bogus high schools and diplomas (34 CFR 668.16(p))
- On-going OIG/FSA work to detected fraud
- Task Force formed to review recommendations & take appropriate actions
  - Likely, we will not be moving forward on all OIG recommendations. Some recommendations would likely have unintended consequences that would inhibit access and completion for innocent low-income student



# **Institutional Case Study**

**Gary Spoales**  
**American Public University System**  
**(APUS)**



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# APUS Background

- Private For-Profit 100% Online
- American Military University
  - Terrorism Studies to Masters of Disaster
- American Public University
  - Education, Police, Fire, EMT, Homeland & National Security
- Regionally and Nationally Accredited
- Award Winning Online Programs
- Costs are less than an average four year public
  - No Undergraduate tuition increase since 2001
  - Books are free for undergraduates



# APUS Background

- 100,000 + Students / Average Age = 31
- 40,000 + Title IV
- # 1 in Military Enrollment
- 87 online degree programs
- Associates, Bachelors, Masters & Certificates
- Word of Mouth
- Student Experience

# Fraud Awareness at APUS

- Red Flags vs. fraud and/or abuse
- University-wide responsibility
- Everything is not what it appears
- Patterns of activity
- Geographic, phone and complaints
- Listen to your students and staff

# APUS Observations of Suspicious Activity

- Address changes prior to disbursement
- Volumes of calls from outbound call centers
- “Students” being coached on what to say
- Inability to respond quickly to challenge questions
- Limited classroom activity
- Plagiarized and/or meaningless academic effort
- Just enough academic activity to generate a refund

# APUS Observations of Suspicious Activity

- Multiple students with the same:
  - Physical and/or e-mail address
  - Street and/or neighborhood/zip code
  - Home and/or cell phone number
  - IP address
  - Similar FAFSA/ISIR information
  - Address change prior to disbursement

# APUS Perspectives on Solutions

- Place holds on accounts in question
- Set flag in the student system
- Application fees, high school verification, and front-end TCE evaluation
- Refer groups to legal processes
- Initiate more rigorous academic engagement activities
- Rigorous challenge questions
- Created job aid for staff
- Third party software

# Ongoing Activities at APUS

- Continue to seek guidance for:
  - Limiting Cost of Attendance
  - Withholding disbursements
  - Triggers for reporting to the Office of Inspector General (OIG)
  - Flexibility in applying Professional Judgment
- Data matching and Exception Reports Daily
- Red Flags Identification and Enforcement
- Direct calls and/or e-mails to Specialized Intervention Team
- Fraud Mitigation Service Requests – 24 and counting

# **Institutional Case Study**

**Ryan Chase  
Rio Salado College**



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# Rio Salado College Background

- Mission Statement
  - Rio Salado College transforms the learning experience through:
    - Choice, Access and Flexibility
    - Customized, High Quality Learning Design
    - Personal Service and Organizational Responsiveness
- Approximately 70,000 students primarily distance learning
  - Associate's Degrees
  - Certificates of Completion (GE Programs)
  - Post-Baccalaureate Teacher Certification and Teaching Endorsements
- Approximately 13,000 federal aid recipients (2010-2011)
- Relatively low cost
  - Tuition ranges from \$76 per credit hour to \$317 per credit hour
  - Out-of-state distance learning tuition is \$215 per credit hour

# Fraud Reporting Requirements

- US Department of Education
  - Standards of Administrative Capability
  - C.F.R § 668.16(g)
- Federal Trade Commission
  - Red Flags Rule
  - Rules and Guidance to Prevent Identity Theft
  - For more information:
    - <http://www.ftc.gov/bcp/edu/microsites/redflagsrule/index.shtml>

# Lessons from Rio's Experience

- Encourage staff to identify and report reasonable patterns of fraudulent behavior
- Develop an effective working relationship with the Department of Education's Office of Inspector General (OIG)
- Stay vigilant and remain persistent
- *United States v. Halton et. al.*
  - 64 defendants sentenced for their roles – the largest ever charged in a student loan fraud scheme
  - Ring leader sentenced to 41 months in prison and ordered to repay \$581,060 in restitution

# Rio Salado College Today

- College-wide efforts to identify patterns of fraudulent behavior and to reduce instances of its occurrence
  - Academic Integrity Database
  - Address Validation Procedures
  - Challenge Questions for Identity Verification
- Constantly monitor for triggers of suspicion
  - And request additional information based on reasonable suspicion
- Continue to work closely with the OIG

# Current Issues and Recommendations for Discussion

## Potential Opportunities at the Federal Level



# 1) Expand Front-End Federal Monitoring

- FAFSA Federal Data Matching Process
  - Cross match federal databases
  - Cross match FAFSA applicant database
- High School Authentication Process
  - Cross match state databases
  - Populate a master national list

## 2) Expand Institutional Flexibility

- Cost of Attendance
  - Direct vs. Indirect costs in student budgets
  - Limit the refunds to fraudulent students
  - Limit the attraction of lost cost targets
  - Control the environment up-front
- Professional Judgment
  - Current guidance limits cohort assessments
  - Mississippi, Georgia, Utah, California
    - Specific area codes, streets and neighborhoods

### 3) Improve Communication

- Very little information sharing
- Limited feedback
- OIG Ongoing Investigations
  - Status updates and guidance to schools for treatment of students in specific cohorts
- Results of Investigations
  - Report on final outcomes to schools involved

## 4) Strengthen Experimental Sites Initiative

- Experiment 6: Limiting Unsubsidized Loan Amounts
  - Over-borrowing by students
  - Lack of loan availability at institutions
  - Unintended consequences at for-profit colleges

# Contact Information

We appreciate your feedback & comments.

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# Department of Education Office of Inspector General



## Distance Education Fraud Rings

William D. Hamel

Assistant Inspector General for Investigations  
U.S. Department of Education  
Office of Inspector General



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**“An ounce of prevention  
is worth a pound of cure”  
Benjamin Franklin**



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## **34 C.F.R. § 668.16(f):**

Requires schools to develop and apply “an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid.”





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## 34 C.F.R. 668.16(f) cont.

In determining whether the institution's system is adequate, the Secretary considers whether the institution obtains and reviews—

(1) All student aid applications, need analysis documents, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant;





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## **34 C.F.R. 668.16(f) cont.**

(2) Any documents, including any copies of State and Federal income tax returns, that are normally collected by the institution to verify tax information received from the student or other sources; and

(3) Any other information normally available to the institution regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under the Title IV, HEA programs.





# Department of Education Office of Inspector General

## Link to OIG's Distance Education Fraud Ring IPAR

<http://www2.ed.gov/about/offices/list/oig/invtreports/l42l0001.pdf>



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# Our Recommendations

Type of Action	Recommendation
Legislative	
Regulatory	

# Our Recommendations

Type of Action	Recommendation
Administrative	



**Note: Focus Group on  
Fraud and Distance  
Learning at 5:15 PM on  
December 1.**

**Thanks**



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