FRAUD AND ABUSE OVERVIEW

Presented by:

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Office of Inspector General

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Objectives / Agenda

- Introduction to ED/OIG
- What is Fraud?
- School Responsibility
- Role of OIG
- Fraud Cases
Who Are We? ED-OIG

- Independent office within the Department
- Conducts Audits, Investigations & Inspections of all 142 Department programs, including Title IV
- Reports directly to Congress on ways to improve Department programs and on OIG activities
- Presents findings to Federal prosecutors and Department officials for enforcement actions
ED disburses approximately $121.3 billion per year in educational program funding

16,000 domestic and international universities & colleges participate in ED financial aid programs

During this last year approximately 26.6 million students applied for Federal Student Aid
The Federal Pell Grant program, authorized by the Higher Education Act (HEA), is the single largest source of grant aid for postsecondary education attendance funded by the Federal government.

The Federal Pell Grant program is estimated to provide nearly $19 billion in FY 2009 to approximately 5.8 million undergraduate students.
What is the OIG’s Mission?

- To prevent and detect fraud, waste and abuse and improve the economy, efficiency and effectiveness of Education Department programs and operations.
U.S. Department of Education Office of Inspector General Regional Offices

**NORTHEASTERN REGION, NY & Boston, MA**
- New York, NY
- Boston, MA

**SOUTHEASTERN REGION**
- Atlanta, GA
- Pembroke Pines, FL
- San Juan, PR

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Federal Law Enforcement Officers (Referred to as Special Agents)
- Conduct criminal and civil investigations
- Execute arrest and search warrants
- Serve federal Grand Jury and administrative subpoenas
- Present findings to Grand Juries and prosecutors
What is Fraud?
Criminal Statute: 20 USC 1097(a)
Student Financial Assistance Fraud

- Any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement or forgery, or fails to refund any Title IV funds, assets or property provided by or insured under this subchapter or attempts to embezzle, misapply, steal...

- Shall be fined not more that $20,000 or imprisoned for not more than 5 years, or both

- Attempt is defined as “an undertaking to do an act that entails more than mere preparation but does not result in the successful completion of the act.”
Subjects of Investigations

- Schools, school employees, officials, and/or owners
- State Agency employees
- ED employees and ED contractors
- Lenders and collection agencies
- Financial aid preparers
- FSA recipients
Examples of Title IV Fraud Schemes

- FAFSA enrollment fraud
- Falsification of entrance exams
- Falsification of GEDs/HS diplomas
- Falsification of attendance
- Falsification of grades
- Front loading
- Failure to make refunds
- Obstruction of Federal audit or program review
- Ghost students
- Loan theft/forgery
- Fraud/Theft by school employees
- Default rate fraud
- 90/10 rule
- Financial statement falsification
- ATB fraud
- Falsified last date of attendance
Types of Fraud Schemes Rising at Alarming Rates

- ID Theft Rings
- Fraud Ring Scams
Common Elements of Identity Theft/Fraud Ring Schemes

- One ring leader who recruits co-conspirators to participate in fraud scheme
- Identities of friends, relatives and/or acquaintances are used and/or stolen
- Relatives, friends and/or people “off the street” are recruited to participate in scheme
- Participants have **NO** intention of going to school
- Most of the participants are not even eligible for financial aid because they don’t possess a high school diploma or GED
Common Elements continued...

- Computers are used to enroll participants in online courses at various schools
- Computers are used to submit the participants' FAFSAs and loan applications
- One or two common addresses and/or email addresses are utilized on FAFSAs and/or loan applications
- Ringleader creates easily identifiable email addresses for each participant and uses them on FAFSA and loan applications
Financial aid checks are usually sent to the ringleader’s and/or associates residences or PO boxes.

Refund money is split between ring leader and other co-conspirators.

Ringleader and associates deposit the refund checks in one or two bank accounts, or cash them and immediately split the money.

Fraud linked to organized street gangs or individuals with extensive criminal records.

Some colleges are running proactive queries to pull multiple applications at the same address, same email, and/or phone number.
Case Examples
Ringleader engaged 4 individuals to help recruit people to participate in the scheme to apply for financial aid thru distance education programs at a community college.

Applicants were neither active students nor did they intend to become active students.

Participants kick back a portion of those funds to the ringleaders and her conspirators in amounts ranging from $500-$1,500.

Individuals received more than $538,000.
Referral to our office from community college

Financial aid employee completed financial aid paperwork for relatives who did not attend class, one person was the employee’s husband and the others an aunt & uncle

The applications contained false information that the employee submitted to obtain Pell funds

Checks were sent to employee’s address

Employee and husband were charged with grand theft and false pretenses
Employee at college submitted false information on the FAFSA for her daughter so she would receive financial aid she was not eligible to receive

Individual was charged with felony counts of perjury and grand theft

Individual pled guilty to one count of grand theft and paid the financial aid received in restitution
Referral from USA Funds
Individual legally received a second SSN based on personal safety issues
Individual used her new SSN to defraud lenders out of more than $600,000 in student loan money that she used to play the stock market, buy a condo and launch a startup business
Received approximately $240,000 in Stafford subsidized and unsubsidized loans in addition to almost $700,000 in private loans through Sallie Mae and USA Funds
Financial Aid Fraud Ring- ID Theft Case

- Main subject, along with 3 co-conspirators recruited more than 50 people
- Subject would obtain individual’s identifying information, enroll them in school, then contact them once their checks arrived in the mail
- Subject would have all checks sent to her residence or addresses under her or co-conspirator’s control
- Subject would meet “student” at a check cashing location and receive half of the money
- Approximate loss is $350,000
Several addresses were utilized in this scheme
Main subject learned fraud scheme from her mother, who perpetrated the fraud from 2005-2007
Many “students” flagged for verification. All verification documents appear to have similar handwriting, all have young children listed, and no income except public assistance
Generic email addresses created
- (ex. JaneDoe23@yahoo.com)
Friends and family were recruited into scheme
Recruiters were paid by main subject for the use of their mailing addresses
Some of the “students” were knowing and willing participants in scheme
Some of the “students” believed that they would attend school and that main subject worked for school
Some of the “students” were pure ID theft victims
Main subject utilized several “alias” to facilitate the fraud, and also committed several other kinds of fraud (check cashing, debit card, credit card, loan, car leasing, etc.)
Financial Aid Fraud Ring – ID Theft Case continued....

- To date:
  - 86 individuals involved in this scheme from 2005-present
  - Over 10 addresses utilized
  - Over $300,000 in fraudulently obtained funds
  - Nine indictments
  - Six arrests
  - Thirty-three persons interviewed
  - Three plea agreements
  - Several press releases & media coverage
OIG has broad access to all SFA related records and documents under Regulation 34 CFR 668.24

- Subpoena
- Search Warrant
- Consent Search
- Exempt from Privacy Act

Family Education Rights and Privacy Act- 34 CFR 99.31- non-disclosure to students
The Secretary considers an institution to have administrative capability if the institution:

- **g)** ... Refers to the Office of Inspector General... any credible information indicating that an applicant for Title IV, HEA program assistance may have engaged in fraud or other criminal misconduct in connection with his or her application

- Reporting obligation further applied to fraud on the part of employees, third party servicers or other agents of the institution
Who is Responsible for Reporting Fraud?

- **EVERYONE** who deals with ED funding has a responsibility to help control fraud.
Report fraud, waste or abuse to the US Department of Education, Office of Inspector General

34 CFR 668.16 examples:
- (i) False claims of independent student status
- (ii) False claims of citizenship
- (iii) Use of false identities
- (iv) Forgery of signatures or certifications; and
- (v) False statements of income; and

Any credible information indicating that any employee, third party servicer, or other agent of the institution that acts in a capacity that involves the administration of Title IV, HEA programs, or the receipt of funds under those programs, may have engaged in fraud...
How you can help

- Review documents *thoroughly*
- When verifying identity documents, *ask to see originals*
- If a document appears suspicious request additional forms of identity (if altered, whiteout, original not available)
- Compare information on different documents
- Regularly run checks to identify similarities of address, phone and/or email between students
- Ensure that staff receive necessary training
- *Make referrals to the Office of Inspector General*
If You Suspect Fraud

Immediately contact nearest OIG office

Give as much detail about the allegation as possible

Provide any documentation supporting the allegation
FinAid Perspective

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