

Fraud and Abuse in Federal Financial Aid

Presenters:

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Agenda

- ▶ Opening remarks and introductions
- ▶ The Federal Perspective and “Call for Action”
 - ▶ Current activity and results
- ▶ Case Study
 - ▶ American Public University System
- ▶ Institutional and Federal Roles
- ▶ Interactive Discussion with Attendees

Call to Action

- ▶ We expect institutions to take steps necessary to ensure that students are academically engaged prior to disbursing Title IV student aid funds. If students do not begin attendance, Title IV funds must be returned (34 CFR 668.21(a)). We strongly encourage institutions that suspect potential fraud to question an applicant's intent to seriously pursue the academic program by requiring the student to demonstrate that he or she has an academic purpose in order to establish eligibility for Federal student aid. If a student does not demonstrate academic purpose or resolve other concerns regarding identity or eligibility, the institution should not disburse Title IV funds. DCL ID: GEN 11-17 (October 20, 2011)



U.S. Department of Education

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.”



U.S. Department of Education

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.



U.S. Department of Education

Link to OIG's Distance Education Fraud Ring IPAR

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

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



The OIG Recommendations

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

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

Keith Wellings

American Public University System (APUS)



APUS Background

- ▶ Private For-Profit 100% Online
- ▶ American Military University
 - ▶ Terrorism Studies to Masters of Disaster
- ▶ American Public University (Public Service)
 - ▶ Education, Police, Fire, EMT, Homeland & National Security
- ▶ Regionally and Nationally Accredited and 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
- ▶ 45,000 + Title IV
- ▶ # 1 in Military Enrollment
- ▶ 87 + online programs
- ▶ Associates, Bachelors, Masters & Certificates
- ▶ Student Experience and Word of Mouth

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

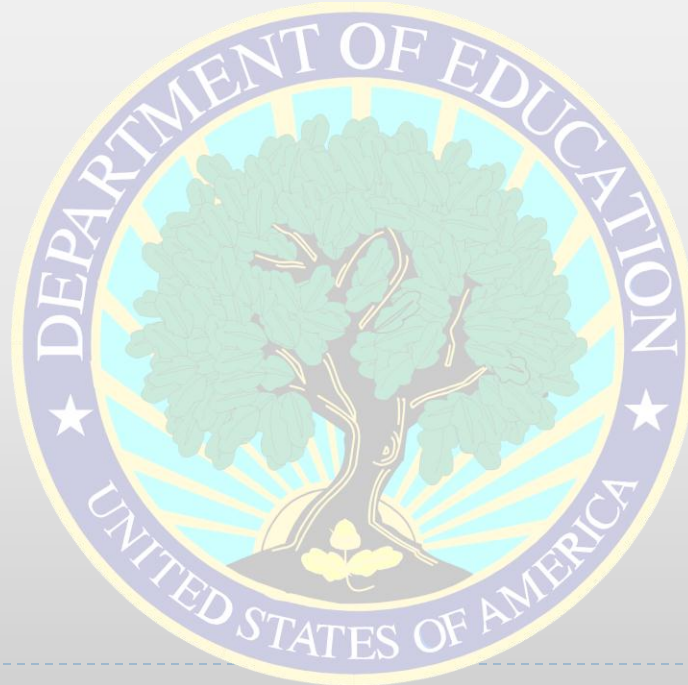
- ▶ Continue to seek guidance for:
 - ▶ Limiting Cost of Attendance
 - ▶ Withholding disbursements
 - ▶ Triggers for reporting to the Office of Inspector General (OIG)
 - ▶ Flexibility in applying Professional Judgment
- ▶ Data matching and Exception Reports Daily
- ▶ Red Flags Identification and Enforcement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

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>

Thank You For Your Efforts to Fight Fraud and Abuse



Our Recommendations

Type of Action	Recommendation
Legislative	
Regulatory	



Our Recommendations

Type of Action	Recommendation
Administrative	



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