



FRAUD ON THE FRONT LINE- FINANCIAL AID FRAUD

Identifying fraud in 2023



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PRESENTERS



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SESSION OBJECTIVES



Understanding current fraud threats that pose a threat to IHE's



Fraud prevention practices



A look at real life examples of Financial Aid Fraud



Learning policies and practices you can put in place today to prevent fraud at your institution



Understand who at your institution should be trained on how to detect and prevent fraud.

ADMINISTRATIVE CAPABILITY

- A school must refer to the Department's Office of Inspector General (OIG) any credible information indicating that an applicant for federal student aid may have engaged in fraud or other criminal misconduct in connection with his or her application.
- Common misconduct includes false claims of independent student status, false claims of citizenship, use of false identities, forgery of signatures or certifications, and false statements of income.
- Remember that fraud is the intent to deceive as opposed to a mistake.

OFFICE OF INSPECTOR GENERAL CONTACT INFO

Contact the OIG Special Agent in Charge in your geographic area as shown at the following link:

<http://www2.ed.gov/about/offices/list/oig/oigaddress.html>.

Phone: 1-800-MISUSED

E-Mail: OIG.HOTLINE@ED.GOV

Fax: 202-245-7047



Once you have discovered there may be a problem, you need to contact the Department of Education's OIG Office.



DEFINITIONS

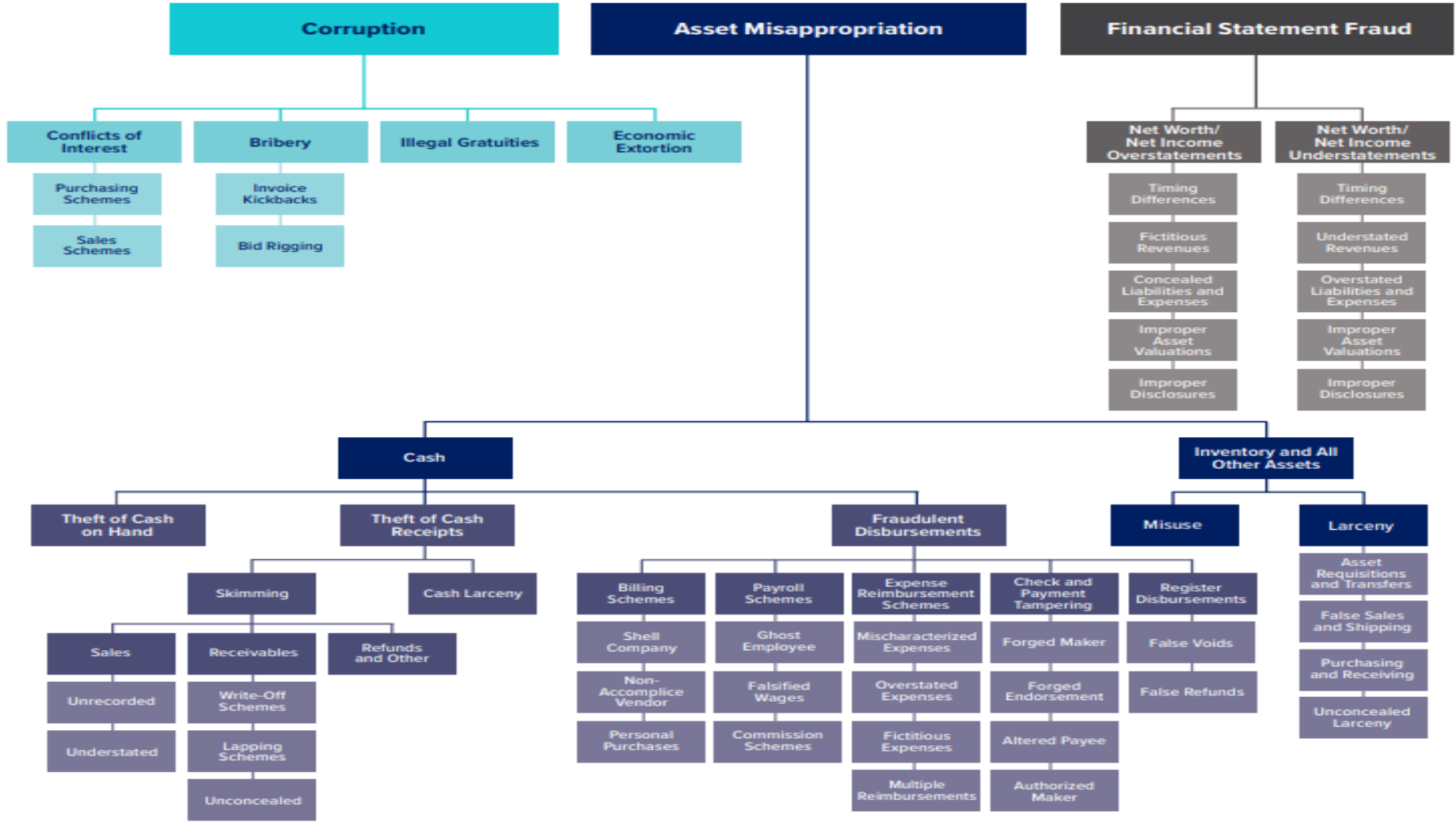
- **Fraud**– The wrongful or criminal deception intended as to result in financial or personal gain. This includes false representation of fact, making false statements, or by concealment of information. This is proved in court.
- **Waste** – Thoughtless or careless expenditure, mismanagement, or abuse of resources to the detriment of the US Government. This also includes incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls. This is subjective.
- **Abuse**– Excessive or improper use of a thing, or to use something in a manner contrary to the natural or legal rules for its use. This is subjective.



Definitions were provided by the Office of Inspector General.



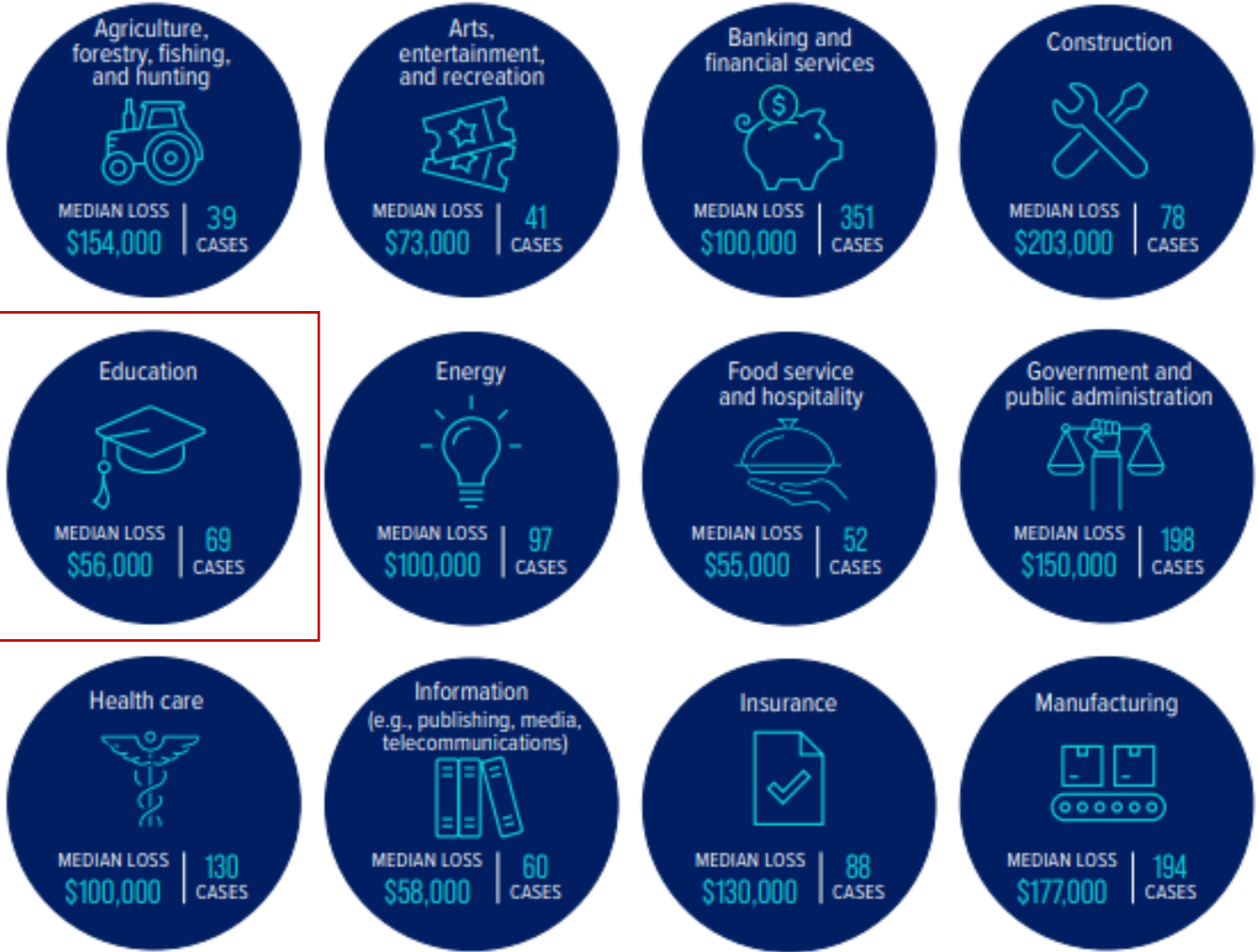
OCCUPATIONAL FRAUD TREE



Source: ACFE's 2022 Report to the Nations on Occupational Fraud



FRAUD'S AFFECT ON INDUSTRIES



Source: ACFE's 2022 Report to the Nations on Occupational Fraud

MOST COMMON FRAUDS BY INDUSTRY

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%
Manufacturing	194	26%	5%	9%	7%	59%	10%	12%	23%	10%	4%	8%
Health care	130	20%	6%	8%	8%	50%	11%	9%	18%	12%	2%	9%
Energy	97	24%	9%	6%	8%	64%	16%	8%	13%	6%	3%	2%
Retail	91	19%	10%	9%	9%	43%	7%	4%	24%	5%	7%	14%
Insurance	88	15%	9%	8%	10%	40%	9%	5%	8%	10%	2%	11%
Technology	84	21%	6%	10%	6%	54%	14%	8%	30%	5%	1%	1%
Transportation and warehousing	82	20%	9%	15%	4%	59%	11%	7%	22%	9%	4%	11%
Construction	78	24%	8%	10%	14%	56%	17%	18%	24%	24%	3%	9%
Education	69	26%	9%	12%	12%	49%	12%	12%	19%	14%	4%	12%
Information	60	15%	5%	5%	8%	58%	12%	12%	33%	7%	2%	7%
Food service and hospitality	52	19%	10%	21%	17%	54%	13%	13%	29%	19%	10%	17%



Source: ACFE's 2022 Report to the Nations on Occupational Fraud

WHY IS FRAUD HAPPENING?

Lack of internal controls

Lack of management review

Making exceptions or overriding internal controls

Lack of training, knowledge at the supervisor level

Lack of auditing files, second review processes

Lack of employee training on fraud

Not reporting fraud, lack of reporting suspected cases

EXAMPLES FOR HIGHER EDUCATION

- Budget Cuts create little or no segregation of duties
- Supervisors and management “rubber stamping”
- Lower overall salaries in education
- Policies and procedures not communicated and/or enforced
- Low risk of detection
- Poor tone at the top
- No anti-fraud program/training

FRAUD RISK INDICATORS:

Having only one person in control

Lack of separation of duties

Lack of internal controls/ not following the internal controls

Repeat audit findings

Not reconciling financial records

Experiencing high turn over of staff

Unexplained entries in records

Unusually large amounts of cash payments

Missing or incomplete documentation

Altered records

Unauthorized transactions

Related party transactions

WHAT FEDERAL STUDENT AID FRAUD LOOKS LIKE

Per the office of ED OIG, Federal Student aid Fraud looks like:

1. Nonexistent or ineligible students
2. Commonalities between students have the same bank account numbers or email addresses
3. Students withdrawing from school after receiving aid or frequently changing schools
4. Failure to disburse Federal student aid refunds
5. Lost, altered, destroyed student records

TYPES OF FRAUD COMMITTED BY SCHOOL OFFICIALS

- Enrolling Ghost students
- Theft
- Obstruction of a Federal Audit or a Federal Program Review
- 90/10 rule manipulation
- Compromise of system privileges or of protected information
- Unauthorized access of IT systems or protected data

TYPES OF FRAUD COMMITTED BY STUDENTS



FAFSA Fraud (SSN, Alien Registration Status, Dependency Status, Income and Assets, Number of Family members listed in the household)



Identity theft



Falsification of documents



Distant Education Schemes



Fraud Rings



Fake home address (Zillow fraud)

CASE #1- FAFSA FRAUD

Southern Oregon Woman Indicted for Using Deceased Spouse's Identity to Obtain Federal Student Aid

- A Southern Oregon woman is facing federal charges alleging she used her deceased spouse's identity to fraudulently obtain more than **\$36,000** in federal student aid.
- On October 6, 2022, a federal grand jury in Medford returned a nine-count indictment charging Cynthia Pickering, 55, of Central Point, Oregon with wire fraud, aggravated identity theft, and student loan fraud.
- According to court documents, beginning in September 2017 and continuing through April 2019, Pickering is alleged to have devised a scheme to use her deceased spouse's personally identifiable information to submit multiple applications for federal student aid and enroll her former spouse at three different colleges and universities in Oregon. These fraudulent applications caused the three colleges and universities—Eastern Oregon University, Rogue Community College, and Western Oregon University—to disperse **\$36,341** in federal student aid into Pickering's personal checking account.
- To conceal her scheme, Pickering attended online classes pretending to be her former spouse so that her spouse would remain eligible for the student aid. Pickering did what was necessary to pass first term courses at each institution and collect the funds.
- <https://www.justice.gov/usao-or/pr/southern-oregon-woman-indicted-using-deceased-spouses-identity-obtain-federal-student-aid>

CASE #2-STOLEN IDENTITIES

- (Pending case) Student hit multiple schools for federal aid.
- Mother and son both would enroll in classes and then drop classes right after FA Disbursement.
- Enrolled at three universities in Oregon.
- Student and parent were selected for verification (V4) ** This case happened during when the verification waiver was in effect**
- Student provided a copy of driver's license, but the picture was very dark. Face was hard to recognize. Same was provided by parent. Both submitted the Statement of Educational Purpose was submitted with notary signature in person (same notary for both).
- Repeated this at all schools they attended.

CASE #2 CONTINUED

- Student was very demanding when emailing Financial Aid/ Enrollment Services.
- Student would fire off emails immediately after one was just sent.
- Student would email under parent name but using student's school assigned email address.
- All emails would be about “ when will I get my aid?”
- Student would call and claim to be the mother to staff members
- The verification documents that were accepted were not clear.

CASE #2 OUTCOME

- Situation was brought to my attention as the DFA
- Reviewed student's academic history
- Student was processed for an R2T4 and was contacted by our Bursar's office to pay balance
- Student claimed they were a victim of Identify theft- submitted documentation that was not relevant to the identity theft and couldn't pay balance to school.
- Received a call from another DFA from neighboring school about the confrontational emails and calls about disbursement
- Several schools were involved with this student and mother.
- Reported to the OIG as a fraud case.

CASE #3- FALSIFICATION OF DOCUMENTS

- Submitted documents to be reviewed for income adjustment due to job loss
- Financial Aid requested letter from employer due to job loss
- Mother submitted inadequate documentation
- Financial Aid requested updated/correct documentation
- Caught mother in the act of altering documents on the Google doc she submitted
- Reported to the OIG

THE CASE OF ONLINE BOTS

Online bots are pretending to be real students



They sign up for courses and seek out federal student aid



California Community Colleges were recently a victim of online bots.

TIMECARD FRAUD - TYPES

There are several ways that employees receive payment for not working.

- **Inflating time logged in the timecard**
- **Editing timecards retrospectively**
- **Buddy punching**
- **Starting late/Finishing early**
- **Taking or frequent long breaks**
- **Working unauthorized overtime**
- **Handling personal activities during work hours**
- **Constant phone calls/use of social media**
- **Disappearing employees**

RED FLAGS

Possible Red Flags:

- **Employees who log hours during their scheduled classes.**
- **Employees who regularly submit missed hour forms.**
- **Inconsistent time reporting.**
- **Supervisors who regularly approve hours without physically reviewing them for discrepancies.**

CASE EXAMPLES

Example 1: Southwest Tennessee Community College

In 2017, An internal audit of the Southwest Tennessee Community College sampled 35 of the school's Federal Work Study students — 17 athletic and 18 nonathletic — and they questioned more \$6,097.00 in federal costs.

Findings:

- 5 of the 17 athletic FWS students reported working during class times.
- 3 of the 17 athletic FWS students reported working while practicing, playing, and traveling for a sporting event.
- 9 of the 18 nonathletic FWS students' timecards were not approved. These unapproved payments totaled **\$5,510.00**
- 9 of the 18 nonathletic FWS students reported working during class times.

Total Loss: **\$6,097.00**

<https://tennesseestar.com/2019/09/01/memphis-based-college-failed-to-follow-law-on-fraud-and-wasted-work-study-money/>

CASE EXAMPLES

Example 2: Barton County Community College

From around 2004-2006 Department of ED OIG worked a large investigation into a group of college coaches who falsified FWS hours for student athletes. Part of the motivation was their conference of schools could only offer athletic scholarships of half tuition so falsifying FWS hours gave them a way to essentially offer full scholarships. The investigation into financial aid and academic fraud in the athletics department led to the convictions of the athletic director and 7 coaches as well as the firing of the college's president. Coach Lance Brauman went to trial and was convicted in 2006 of embezzlement, theft and mail fraud.

Total Loss: \$19,000.00

<https://www2.ed.gov/about/offices/list/oig/invtreports/ks102006.html#:~:text=A%20jury%20in%20July%20found,Judge%20Monti%20Belot%20in%20Wichita.>

<https://www.espn.com/college-sports/news/story?id=2611020>

“FRAUD RINGS” – AKA CORRUPTION

1

Fraud rings are comprised of one or more ring leaders who organize enrolling “straw students” in distance education programs

2

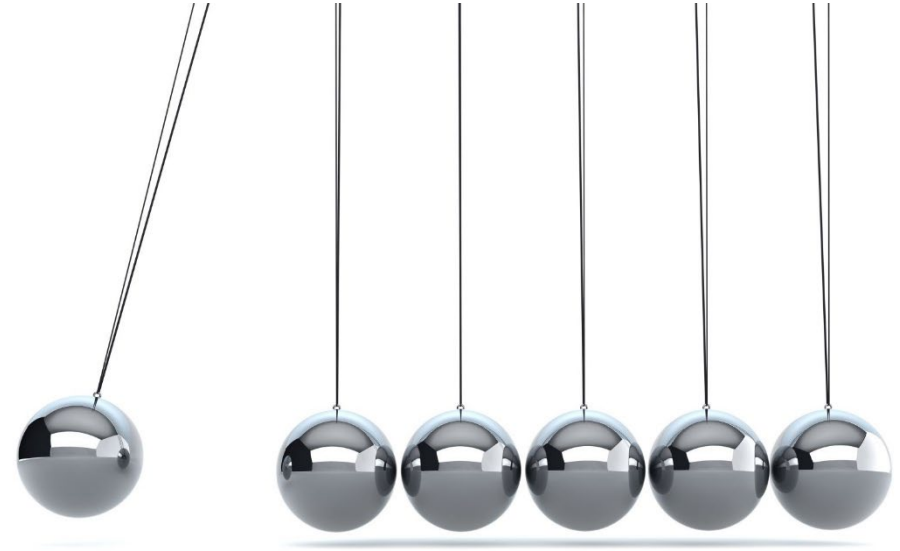
Fraud rings primarily target community college and other open enrollment institutions that have online programs with lower cost to obtain a credit balance

3

Also target these institutions because the application process and enrollment process is usually simple (examples- no requirement for academic credentials, do not require to be in-person at point in that process)

CHARACTERISTICS OF POTENTIAL FRAUD RINGS

- Fraud rings range in size and can be over 400 participants and larger
- OIG's investigation discovered that most fraud ring participants do not meet the basic student eligibility requirements to obtain Title IV funds
- Have no intention in enrolling to obtain a degree, certificate or credential.
- Most participants do not have a high school diploma or equivalent and falsified FAFSA
- Typically, able to pass all the Dept's automated eligibility checks



CASE #4- FRAUD RING

Three Women Indicted for Alleged Scheme that Used Prison Inmates' Identities to Fraudulently Obtain Federal Student Loans

- LOS ANGELES – Three women were arrested this week on a federal grand jury indictment alleging they ran a federal student aid fraud scheme that used the identities of California prison inmates and other victims to fraudulently enroll in an Orange County-based community college and obtain federal student loans totaling nearly \$1 million, the Justice Department announced today.
- The defendants allegedly then posed as the straw students to apply for federal student aid using the Free Application for Federal Student Aid (FAFSA) and directed those funds to bank accounts they controlled. Those funds, according to the indictment, were used for personal expenses and were not used for permitted educational costs at a community college in Orange County as they were supposed to be.
- As a result of their alleged scheme, the defendants fraudulently caused the United States Treasury to disburse approximately **\$980,000** in FSA funds on behalf of straw students.

<https://www.justice.gov/usao-cdca/pr/three-women-indicted-alleged-scheme-used-prison-inmates-identities-fraudulently-obtain>





UNUSUAL THREATS

@ EDU EMAIL FRAUD



A lot of interest in the @ edu email addresses



Can be sold on the dark for web or sold to make money. Entire websites dedicated on how to create .edu email addresses



Relatively simple attacks and are very easy to carry out and are not *technically* illegal make them attractive for beginner hackers

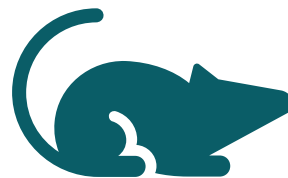


Used to access many things such as student discounts, steal information etc.

COVID 19 FRAUD



Shift from in person to
online/hybrid learning options



Opened the door for bots and
fraudsters



Bots can now disguise
themselves as real students due
to the online environment

Two of the biggest types of bot
fraud schemes are financial aid
fraud and school email theft

PANDEMIC RELIEF FUNDS- FRAUD EXAMPLES

California had over 65,000 fake applications for financial aid submitted in the Community College system during 2021.

1

Over 1.7 million in attempted federal financial aid fraud was caught and declined.

2

Another California Community College paid out over \$100,000 before catching on to the fraud scheme.

3

In the spring of 2022, a community college in Utah received many fraudulent applications, however no aid was paid out.

PENALTIES

Penalties for timecard fraud

- **HR Department may issue written warning;**
- **Possible administrative leave without pay;**
- **Appearance before College Judicial Board;**
- **Termination of employment; and/or**
- **Possible misdemeanor or felony offense, depending on the total amount of falsified time paid.**

PENALTIES

Penalties for theft of federal financial aid funds, including federal work study program funds

Education Fraud - Title 20 U.S.C. § 1097 (a) (DEOIG, 2022)

- Any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement, or forgery, or fails to refund any funds, assets, or property provided or insured under Title IV of the HEA, or anyone who attempts to perform the above actions:
- Persons convicted of a **felony** shall be fined not more than \$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”.

Civil False Claims Act - 31 U.S.C. § 3729 (DEOIG, 2022)

- Knowingly presents, or causes to be presented, to the United States Government a false or fraudulent claim for payment or approval (no proof of specific intent to defraud is required),
- or makes, uses, or causes to be made or used, a false record or statement to get a false or fraudulent claim paid or to conceal, avoid, or decrease an obligation to the Government,
- Burden of Proof – “Preponderance of the Evidence” (More likely than not),
- Specific Intent to Defraud the Government not required, and
- Liable for Civil Penalties of between \$10K and \$20K per count **plus** 3 times the dollar amount of actual damages.



PENALTIES

Criminal Liability

Aiding and Abetting - 18 U.S.C. § 2 (DEOIG, 2022)

- Whoever commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal.

Misprision of a Felony - 18 U.S.C. § 4 (DEOIG, 2022)

- Whoever, having knowledge of the actual commission of a felony cognizable by a court of the United States, conceals and does not as soon as possible make known the same to some judge or other person in civil or military authority under the United States, shall be fined under this title or imprisoned not more than three years, or both.

OTHER CRIMES THAT YOU CAN BE CHARGED WITH

These and other types of scams involving federal aid funds can lead to criminal charges for:

- Theft of public money. (18 U.S.C. § 641)
- Making false, fraudulent, or fictitious claims to any agency of the U.S. government. (18 U.S. Code Section 287).
- Conspiracy to defraud the United States. (18 U.S. Code Section 371). You face five years imprisonment for planning to commit fraud against the government, even if you do not succeed.
- Making false, fraudulent, or misleading statements (18 U.S. Code Section 1001). You face five years imprisonment for false or fraudulent statements within the jurisdiction of the executive, legislative, or judicial branch of the United States.
- Mail fraud (18 Code Section 1341). You could be imprisoned for 20 years for using the postal service as part of a fraud scheme.
- Wire fraud (18 U.S. Code Section 1343), which also has a potential 20-year prison sentence for committing fraud using wire communications.

HOW TO FIGHT FRAUD ON THE FRONT LINE



Conduct a fraud risk assessment and assess potential threats



Create a plan to reduce risks



Work with your IT department to identify common addresses (IP and Email), common bank accounts, common passwords and challenge questions



Information share with other schools



Require two factor authentication to improve security of student accounts



Create and formalize a process for reporting fraud, waste and abuse to the OIG

THINGS TO IMPLEMENT **TODAY** TO FIGHT FRAUD

- Create and implement a second review process on all major Title IV Processes
- Train all staff that interact with Title IV
- Know the updated fraud trends
- Demonstrate a senior level commitment to combat fraud
- Flag items that look suspicious
- Watch for unusual enrollment situations
- Implement strict verification processes for new enrollments
- Monitor website traffic for signs of bot activity. Look for traffic spikes from unusual locations or high volume of visits from a single IP address.
- Create a fraud policy and review it often



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