

David:

Good afternoon. I wanted to welcome you to this session. I also wanted to start the session by thanking my three co-presenters. When I saw first the draft report on fraud rings and then the final report, we realized pretty quickly the first thing (or the second thing really) that we needed to do was have the session.

And the one thing we really wanted to do when we had the session was to make sure Bill Hamel from our Office of the Inspector General (he's the Assistant Inspector General for Investigations) was here. That was important to us. And the other thing that was important to us was to have _____ with us. We have Ryan Chase from Rio Salado College. And we have Gary Spoales from Public University System with us today co-presenting.

There's always some risk when we have co-presenters at this conference. When I'm talking I'm presenting the Department's views. When somebody else is presenting, they're presenting their own views, or the views of their institution. And for us, that was really important for this session. It's important for anything we do, but really important for a session like this. That when you hear from them, you're hearing about their experiences, what they saw, what they observed, and what they take away from it in terms of recommendation. It's really important that you understand that part of this presentation.

The other thing that really made this important is – one of the things this report reminds us of is that institutions are the first line of defense against bad behavior like people in our A programs, including fraud. It's partly so you hear directly from them but also to acknowledge a fundamental truth with us: first line of defense in our aid delivery system really is institutions.

We do have edit checks and those kinds of things built into our systems, but at the end of the day people who are knowledgeable about those systems can figure out ways to thwart them at some point; maybe not immediately, but over time they find ways and it really is the schools that help us, that do so much to guard against fraud.

I'm going to give a few opening remarks and then you'll hear from the two institutions. You'll hear from them about potential changes and responses from the Department, and those are their recommendations. And then you'll hear from Bill talking about the IG's view on this. Then we'll hopefully have some time to get a little feedback on this important topic. If we don't, *[audio cut out]* just send me an e-mail, send Jeff Baker an e-mail, we're happy to

hear from institutions even if it's something you go back and think about three weeks from now. Please share it with us.

I want to talk very briefly about what the report presented as some of the characteristics of the fraud rings that have been. The thing to keep in mind is there are variations on these themes, and likely because the reports out in the public domain, some of the things that have been characteristics of the fraud rings may change, because if people know what we have learned, they'll adapt.

One of the things that you hear the co-presenters describe is generally these people know our rule requirements and they're very strong in putting forth their view. My guess is if people are involved in these kinds of activities they'll learn from those experiences and maybe dial that back a bit. Hopefully not; it'll make it easier to identify.

Anyway, think about these as variations of the theme. There's a ring leader. A ring leader obtains identifying information from individuals and sometimes it's with the promise of some money. Sometimes it's because these are people already incarcerated and really have nothing to lose from providing their identities for use in this manner. The ring leader completes the FAFSA using the multiple identities that they've obtained. They use our online FAFSA on the web. We made it easier for them. They don't have to fill out paper FAFSA's.

And they do that using the identifying information collected. Then they target institutions with low tuition, and institutions that deliver via distance. It's pretty obvious why they do that and it's because that's the way they get more money back. A couple of other things: they tend to target open admissions, institutions where there isn't a need for academic transcripts and other documentation, like test scores, in order to get into the institution.

Another thing we see is that the ring leader participates in some kind of "educational activity." You'll hear a bit about that and what that sometimes looks like in the remarks by my colleagues. The school then, based on that activity that has occurred, they disburse the credit balance to the "student," to the ring leader. The ring leader then distributes some portion of those proceeds that they received to the other participants in the fraud rings. Clearly the ring leader pockets the rest.

In the report you'll see that as of August 1, 2011 the Inspector General had 100 open fraud ring cases (this is not a little problem)

with 49 being evaluated. And since 2005 the OIG has assisted in the prosecution of 215 people. Those numbers probably have increased in the period between the time of the August 1st date in the report and today. The IG made a number of recommendation changes: legislative, regulatory, and administrative.

One of them is to reduce the cost of attendance for students engaged in online programs, to only include _____ education expenses. And on the regulatory front, they recommended that institutions verify the roll and identity of everyone who's engaged in distance learning, and to require institutions to capture the IP addresses for those engaged in distance learning.

On an administrative front, they recommend that we make sure that high school graduation status and educational purpose statements be verified by the institution, that they wanted us to ensure that the central processes system and the NSLDS include flags *[audio cut out]* fraud participants – potential for participants. They recommended that we explore data matching agreements with the Federal Bureau of Prisons and *[audio cut out]* prison officials, and to establish a process by which we look into certain senses where multiple pins are obtained using the same e-mail address for the individuals that they're *[audio cut out]*.

A couple of other things they recommended is that we use current regulatory authority to establish repayment liabilities for *[audio cut out]*. I'm losing this microphone. I may come back up here. I keep losing the microphone, dropping out.

Also have a process in place to ensure that people who have resolved their participation in a fraud ring through a *[audio cut out]* diversion, that we have a process in place by which they are identified -

Male: You want to use this?

Interviewer: process in place to ensure that those individuals who are subject to using a pretrial diversion are debarred or otherwise excluded from eligibility to receive aid. And finally, they recommended that we issue a "Dear Colleague" letter to alert the higher education community about the fraud rings and the steps that institutions could take using current authorities to address the fraud ring issue.

We did issue a Dear Colleague letter as _____ 11/17. We issued it on October 20th. It's available on IFAP. We also identified some other steps that we'd already taken that we think are helpful

in this regard. We talked at the general session yesterday about the process that we put in place to move to a customized verification process. So making changes in that verification process could help us in addressing this problem by requiring institutions ultimately to verify the identity of individuals who are enrolled in distance programs.

We also made changes to the regulations in dealing with high school requiring you to have processes in place to validate high school credential information and to begin to collect on the FAFSA information about the high school that students attended and completed their high school program there. That information over time – that body of information over time I think you'll hear our colleagues talk about might be helpful in helping you identify and helping us identify individuals who are part of fraud rings.

We also established very quickly a taskforce to look into the specific recommendations that the Inspector General had brought forward, as well as other ideas that individuals within the Department have for addressing the issue of fraud rings. We are very concerned about this issue. I've very rarely seen Arne Duncan testy. On this issue he was very testy.

He was very concerned about the potential impact on the Pell Grant program of any incidence of fraud in the student aid programs. So he became very clear with us, with me, that we needed to be very serious about this problem and to address it very aggressively. That is a significant part of what we're trying to accomplish through this session: to make you aware of the problem, to make you aware of how concerned we are about the problem, and to provide some opportunity to hear about the steps you can take to make sure your institutions is not also a victim of the fraud that's tried to perpetrate in our aid programs.

With that I'm going to turn it over to Gary Spoales from APUS.

Gary Spoales:

Thank you David, and thank you for – I'm remote challenged, so if you could help me with that, that would be great. Thank you for inviting me to speak with you and taking a risk of what I might or might not say. You were very good yesterday. My role here is to kind of talk you through what is going on in our institution so that you can be more aware of what might be happening at your institution and you're just not looking for it. And if you're not looking for it, you don't know that it's happening.

This could be called the: Welcome to How to Defraud Session. It's right after lunch so I'm going to try to keep you awake. I may have eaten the wrong thing for lunch, so if I burp please excuse me. How many of you, by a show of hands, have ever shopped online? Thank you. Just about everybody. I'd say that online buying is here to stay, including in higher education. I think my colleagues at Distance Education schools who use online would agree with that.

I started my career in 1974 and closed the first college that I worked for, a two-year college. About a month after I left they closed. I went to St. John's College in Annapolis and in the very traditional, great books program. And then I landed at a Distance Education program called Beacon College in Washington, D.C. It was all paper, no internet, and no e-mail. The potential for fraud was very limited unless the faculty member that was engaged was involved in the fraud.

So it was a very controlled environment. Communication among students was non-existent. They didn't have a network to communicate with. Our students were all over the world. It was a small population but they completed projects, they got graded, and it worked very effectively. I left that school after four years. The D.C. government closed it because they didn't understand Distance Education of that nature.

So I've been credited with closing two schools. Everybody needs something to their name right? The light up here is a little bit dim, so excuse me if I'm struggling here. Think back. When did you begin your career? And why did you end up in financial aid? Did you like the idea of counseling students and families, helping them reach their educational goals? Or perhaps you liked the role of tax expert, accountant, legal expert, debater with parents and students. Debt manager and collections expert might have been your motivator. If it wasn't then, it could be now.

Well now you can follow your career expansion in financial aid, which includes private investigator, judge, and sometimes jury. And you may not always be right. And if you're wrong, someone suffers. If you're right, it's great, but you may never know if you were right in all those cases, right or wrong. I've prided myself in working for schools that I can talk about and feel good about. American Public University is one of those schools.

They run a very good online program. We're 100 percent online and we are defined by social media, 24/7 instant gratification in

our society, cell phones, Facebook, blogs, and Tweets. We monitor all of that. We have a social media team that I'll talk about in a couple of minutes. So now, close your eyes and clear your mind and when I say the word "proprietary education" what comes to your mind? Don't tell me.

Our image of proprietary education is largely based on our perception of the world and when we came into it. This is no longer 1974 and proprietary education is no longer defined by cosmetology, secretarial, and truck driving schools. It includes full, degree granting, high quality universities. At APUS we are, as I said, a private, for profit, 100 percent online. We have American Military University which offers programs from Terrorism Studies to Masters of Disaster, and that really is bombing.

American Public University caters to public workforce and education, police, fire, EMT, homeland, and national security. We're regionally and nationally accredited and we have award winning online programs. Twice we've been recognized by the Sloan-C Effective Practice award: two years in a row. The first time that's ever happened for an institution.

We were founded in 1991 to help Marines continue their education as American Military University, where students could not continue their education because they were getting deployed; stopping out of classes, the mechanics weren't there to help them. That was our mission then and it's still our mission now. We have roughly 55,000 active duty military plus thousands of Veterans.

Overall we have 100,000 plus students. Our average age three years ago was 37. Today's it's 31. We have over 40,000 students on Title IV aid. We're number one in military enrollment, with 87 online degree programs. We offer Associate's, Bachelor's, Master's, and Certificates. Our low cost rolling admissions and monthly starts, and our biggest recruiting efforts is defined by the experience of our students. If they're not happy, they're going to tell the world. If they're happy, hopefully they'll tell two friends.

Our largest recruiting expense is the dis-satisfied student. How do we play into fraud? Well we have low cost tuition. We don't charge for books. We have become very aware through a single incident in early 2009 that involved – You hear David talk about high school verification. Well it involved a high school in a state that was on the state-approved list, on their website. We checked -

When things started looking a little crazy to us, we checked this website to verify the high school.

We saw it on a state-approved list. We said, "The high school's good. What's the question?" So then we started seeing a few other things coming up. It was probably another month or two later that we got a call from a student. The student said, "I got a notice about a refund check and I don't attend your school and I didn't take out a student loan." And it directed us back to this high school. By that time we found that from January to May there were over 200 students in the pipeline.

One hundred and seven students received Title IV funds in refunds. We ended up returning \$107,000.00 to the Direct Loan Program to pay off the loans. Thankfully, the leader of that high school was (I think 24-years-old, if you remember Bill) 24-years-old and he was successfully indicted. We feel really good about coming to closure in that particular case. But it took a student to come and tell us what was going on.

You have to differentiate between red flags, which is identity theft, and fraud or abuse. And trying to do that, there's a thin line. You really have to be aware that you're looking for it and what do you look for? It's a university-wide responsibility. We involved everybody from our Student Services groups, our Academic Advisors, our Financial Aid, our Student Accounts teams, Admissions. It starts right in the beginning of the enrollment process, and everything is not what it appears. We can see patterns of activity, which I'll talk about.

We've identified geographic locations, phone area codes with similar groups, and getting complaints from particular areas which helped us to identify additional students. We've tracked over 12,000 students as potential fraudulent students at one time. One of the things that you have to do is to listen carefully to your students and your staff. One of the things that is endemic in Financial Aid is you have a group of counselors or customer service people who are on the phone all the time.

They have people walking into their office all the time. They get what sounds like the exact same question all the time. Often it's: where is my money? Other times it's: what's the status of my application? But those are common questions that you get and your staff kind of gets ingrained in knowing what the answer to that is, and knowing that they're going to get that question and the

answer is about the same for everybody. We know that that's not true.

It's really hard, particularly with your phone staff, to train them and keep them focused on each person, even after they've talked to 20 people, that the next person is unique. They are different. They have a different set of issues, even though they're asking the same questions. That's how we've found fraud and abuse spreading in our university. We had staff who were in a new cohort of trainees. We have them sitting and mentoring and listening to phone calls. So they were sort of disengaged from understanding everything, but they were listening to what the student was saying.

One of those new trainees picked up on the fact that we have something going on in the background. I hear a lot of chatter in the background. The counselor who was leading the call didn't necessarily identify that. To this new person's credit, we then figured out that we have some call center activity going on. It's one of the patterns that we were finding. At one point we had 8,000 phone calls a week from fraudulent groups, from a couple of area codes.

Mississippi and Georgia are hotbeds for fraud. We ended up setting up specific phone lines for those students, but transferring those area codes to a specific team who monitored and watched those calls. Now there's a danger in that. So they would call into Admissions, Student Services, Financial Aid, the Student Accounts Refund group and bombarding us with questions and tying up our phone lines so legitimate students couldn't get through.

It's difficult when you're working with a lot of military, and there are military bases in those area codes. So you can't just ignore the fact that you're getting all these calls from these area codes. And yes you have a big pocket of fraud in that area, but you also have to find a way to manage the other calls, and not let the legitimate students get waylaid in trying to get their issues resolved. It's a challenge and we've made some work arounds to that. But we have a very dedicated IT staff and a very dedicated social networking group that helps us with this.

Some of the patterns that we've seen are address changes prior to disbursement. We noticed a student would call us up and be asking about where their refund was. If it happened to be somebody that was within a couple of days and they got that information back, well then they went online and they changed their mailing address. What was happening is that the mailing, as

we talked about the fraud ring leaders, that that mail check was going to the ring leader's address.

When we're running our lists of common addresses, we were finding that there was this pattern of changing addresses. If you're not looking for that at your institution, you don't know that it's happening. If you're not running matching lists on a daily basis, you're not aware that that's happening. We're tracking thousands of students and we're managing the changes that they're making and also the commonalities that keep occurring.

At the outbound call center, students are being coached on what to say. One of the things that happened in that scenario with that outbound call center was that we also heard chatter in the background that said, "We're asking for the common identifiers." Like, "What's your birth date? What's your student ID?" We're asking them, "What's your mother's maiden name?" Typical things you get asked to verify your identity.

They couldn't answer those questions. Then you would hear in the background that they were being coached by somebody to give them the right answers. And sometimes that was wrong because they mixed up their paperwork on who they were talking to and about. You'll hear that. Another area that you have to be concerned about is not only their inability to respond quickly, but their classroom activity.

We've found that our students would be logging into the classroom, maybe completing a first assignment. But if we weren't monitoring the detail of that first assignment and the professor wasn't getting to it for a couple of days to review it, they could be at the point where the student's already getting the refund, and the assignment might be: Mickey Mouse was visiting Donald Duck today in Disneyland. Unless you're looking for that, you're not going to find it. That's not just going to pop up.

You're going to see – a lot of systems will show that there's an assignment being done. The student logged in. A lot of that changed with Program Integrity roles, which we welcomed. We've done a lot of work in that area, requiring very stringent detail about what a first assignment is and continual assignments. We also find a lot of plagiarized work. We have students who have to take a course called College 100 as their first course. It teaches them how to learn online essentially, make sure that they are capable of going through our process and doing it successfully.

When they do that, there are maybe 15 or 18 students in a class with a separate professor. Well, we might have 10 or 12 of those classes running at a time. If one person doesn't know what is going on in the other classroom, they may not be seeing the patterns of plagiarism that could be going on. There could be one person in each class doing the same work at the same time. But we found that we've been able to collect that information, match it up in our computer system to try to figure out what was going on. And that's been helpful in attacking these issues of fraud. Then you'll find that students will do whatever that minimal amount is of work, to get their refund.

Some of our observations are multiple students with the same information: physical address or e-mail address, street and their neighborhood. They live in the same neighborhood. The zip code is the same. They use the same phone and/or cell phone number. They use the same IP address. You heard Dave talk about the possibility of looking at IP addresses. I think the group yesterday kind of gave us an indication they don't agree that that's a good thing to do.

One of the reasons that I don't think it's a good thing to do is that if somebody's using a service like Comcast, that IP address might change randomly. If someone is going to the public library, you're not going to be able to track it back to a specific person. And there are other scenarios where you find that that can't be tracked effectively. They are submitting similar FAFSA or ISIR information. And again, the address change prior to disbursement. Again, they are not going to be evident unless you're looking for it.

Some of the solutions that we've come up with is temporarily we've placed student accounts on hold so that we have time to investigate and analyze to see if there's enough information to withhold financial aid. We set flags in the student system so that across our university, all of the student-facing groups know that this is a student that's been flagged as a potential student or red flags. We've looked at and considered application fees, how we do high school verification, and charging for frontend transfer credit evaluations that currently we don't do.

We do refer students – Our best friends - I would not have thought this 20 years ago, but our best friends work for the OIG's office. We have a great relationship with Bill Hamel's group. We're in contact with them every week. We've initiated more rigorous academic engagement activities, and we use rigorous challenge questions. We're going to a third-party system. There are several

out there: AXIOM, LexisNexis, that use more rigorous challenge questions in your electronic process to identify students.

And we created job aids for staff. We train, train, and retrain, because when you're growing as we are, you have a lot of new staff coming in and they have to be trained. The people who have been there for quite a while, they need to be retrained. So it's a constant process for us. The challenge is differentiating the culprit from the victim. The timing of your actions in determining whether what you know is sufficient to refer to the OIG's office (and Bill will speak a little bit about that). Training your student-facing teams is very important.

I want to read to you an e-mail. Our social media guru started out as a one person shop about a year ago and I think he has about eight or nine people now. We track everything that's going on on the internet. I asked him to give me some information that I could share with you to give you some sense of the lengths to which we go to identify this.

"We use software that monitors the entire internet in real time, looking for mention of our key words. The software then triggers alerts which we review and triage. We have full-time employees tasked with monitoring the alerts. We have a triage process that evaluates many factors regarding the content, such as sentiment, type of post, ability for us to reply, and the risk to the organization. We have a series of points of contacts across the organization that we partner with for addressing issues quickly and efficiently."

"Issues are flagged and escalate to appropriate points of contact as necessary. We use the answers and resolutions from past issues to help refine our processes and improve the user experience. We also use past cases and information provided by our department POC's to identify specific trouble spots. In the case of fraud, we have regular communication with your team's POC's and we also review information provided to us about red flags and then look for patterns in the complaints that match up with the information that we provide them."

As an example, when they were informed that a portion of Georgia was flagged, they started seeing complaints come in from people in that particular region. They started flagging them as potentially suspicious, and then they referred them and identified that when escalated. They also used the information to understand potential risks in customer service such as the issue that good students in effected regions may have trouble getting through because they are

being falsely flagged as suspicious. So we should anticipate some complaints from these legit students.

One of the things that we found that was happening is that these groups will also inundate your lines. They will contact, call your office, night and day, and flood your phone lines. As I said, we had 8,000 calls a week that we had to monitor and move off to a special team. He offers one last item. It's an interesting anecdote. Basically, they had someone on Facebook complaining about not getting their refund in a timely manner.

"Other students started to chime in and interact. At one point the complaining party said that he lived at his mother's home and she was a student and had already received her refund. So why hadn't he? We replied with a response to have him contact the Refunds team and that refunds can be case specific and are based upon many variables. A few minutes later he made a post that says he was really hoping to get his refund soon so he wouldn't be evicted – from his mother's home." *[Laughter]*

"At this point we became somewhat suspicious. Wouldn't you? Because earlier he said he's living at home and now he's saying he'll be a victim. Well, while this actually may be true, it was nonetheless very suspicious and even later he mentioned that he had two addresses and that the check may have gone to the wrong address. He's wondering if he didn't change it in time I think. We knew that by working with your team, changing an address at the last minute and prior to a refund is a red flag event. So when we escalated this case to your team, we highlighted that aspect of this post."

That's just one specific example of what lengths we've gone to across the university. We continue to seek guidance, both from the Department of Education and our ability to limit cost of attendance, to limit loans and refunds for our 100 percent online institution. With an online library, electronic books, we withhold disbursements. We look for triggers for reporting to the Office of the Inspector General, and flexibility in applying professional judgment. Dave mentioned in the OIG's report from September 26 that one of the things that Bill's report says is that schools –

Well, I don't know if you mentioned in your remarks, but schools in a particular instance – and I think it was Ryan's school, Rio Salado, where they had the ability to use professional judgment, but didn't use it in this particular case. Well professional judgment in the 21st Century doesn't work the way it did in the 20th Century.

One on one review of professional judgment is not possible when you've already identified the problem, the groups, and the location. You have a group of people that you know are committing fraud but you have to apply professional judgment according to the regs on a one case by case basis.

How many of you can do that? I know we can't. Not when you're monitoring 12,000 students. So that's one of the things that we are looking to get some guidance on, and help. We have fraud mitigation service requests that are 24 and counting, with our IT Department. And we support and have promoted giving institutions more flexibility. Trust us to do the right thing. We're professionals. Use the audits and program reviews to verify what we do and don't tie our hands and then blame us for climbing default rates and ineligible disbursements.

In the interim, we've created numerous internal reports and routines for identifying potential frauds and abuse. We have hired additional staff and created specialized teams and team activity to monitor this phenomenon. Ryan will now talk about his experience at Rio Salado College and I'll come back and talk a little bit more about potential methods of approaching this at the federal level.

Ryan:

Good afternoon everyone. I'm going to share my comments with you seated here today. My name is Ryan Chase, Associate Dean of Student Affairs at Rio Salado College. Let me first share with you a little bit about the background of Rio Salado College, very briefly. We are one of ten Maricopa Communities Colleges serving greater Phoenix. The mission of Rio Salado College is really one about openness, access, and convenience, providing students with the flexibility to obtain and attain their educational goals.

We have approximately 70,000 students, many of whom are not program seeking with us. They simply are dropping in for the convenience, picking up the class that they need to take to attain their degree or certificate, and move on. We do have about 13,000 program seeking students who are Federal Student Aid recipients. We offer Associate Degrees, Certificates of Completion, and Post Bacc Teacher Cert programs as well as teaching credentials.

We're a relatively low cost institution, some would say very low cost. Our cost for in-state, in-county residents of Maricopa County is \$76.00 per credit hour. And our tuition ranges from a low of \$76.00 to about \$317.00 for out-of-state students who are attending

our ground campuses of many of our sister colleges. For online students residing out-of-state, the tuition rate is \$215.00 per credit hour. So why is this important? We're open access, and we're very low cost. That makes us a target. And if your institution is like this, it makes you a target too.

I wanted to briefly cover two areas of mention, two areas of regulation especially for school folks as you are making the case within your institution about: why is this important? I know that Bill is going to build upon this a little bit. But within standards of administrative capabilities and I've listed the citation there, institutions are obligated to report suspicious activity and make referrals to the OIG. I would also call your attention to the Fair Trade Commission and their red flags rule.

We've provide a link to an overview – it's a great overview – of planning and rolling out red flags procedures at your organization. These rules were primarily geared toward financial institutions, but for schools, when we're handling student accounts, we fall into the provisions and guidelines of the red flags rules as well. So I just wanted to make sure that everyone was aware of that.

Many areas of concern that we have overlap those that Gary had shared with us. It is extremely important to encourage your staff to identify and report reasonable patterns of fraudulent behavior. A number of years ago (the first time that the college recognized that it had this issue) our office started receiving faxes. They were just coming in, different students, similar handwriting, and all these faxes were coming in at the same time. And we're like, "Oh my gosh, we've got a fraud problem here."

That is completely reasonable. When we discuss: what is reasonable to follow up on? And we'll chat about this a little bit more because you can't chase everything. And you don't want your staff to become suspicious, but you do want to establish as an institution, what are reasonable triggers of suspicion. Things like events like getting a lot of faxes really hit that mark. In many of the press releases for a case that we had, it referred to an "astute part-time staff member" who tipped us off to this.

That really was the case. I'm really pleased to say that she is now a full-time member of our team. And we get a good chuckle about the fact, when we see in the press, "the astute part-time staff member." We really – Even though it's a serious topic, it's one that we look at and we say, "You know what? It had to start somewhere and we're really glad that we as an institution began to

really look at this, build procedures around it, and also – not only from a financial aid perspective, but the institution as a whole."

Just like Gary has mentioned, this is not something that is centralized within the Financial Aid Office, but really is a dynamic, interdepartmental initiative at our college. I would encourage all schools to develop effective and productive working relationships with the Office of Inspector General. They have been extremely helpful in our referrals. And I encourage you all and your teams to stay vigilant and remain persistent.

Vigilant in the sense of not only flagging those situations that merit further review, but also being vigilant in not allowing yourself to become cynical or suspicious of all of those students who truly are coming to your institution for all of the right reasons. We certainly do not want to – It's a fine balance between being cautious, but also providing good service to all of those students, the vast majority of students who are coming to your institution to improve their lives and to obtain higher education.

In our experience – you know, we talked about those faxes that had started coming in and the person who had identified them. That actually led to a big case in Phoenix a couple of years ago. United States vs. Halton, in which there were 64 individual members of a fraud ring, each of whom were basically charged with financial aid fraud. They basically were all convicted of their crimes, including the ring leader who ended up being sentenced to spend 41 months in prison and repay nearly \$600,000.00 in restitution.

Bill – publically, thank you very much to you and your team for all that you do for all of our schools. That was a very unique case and as it was mentioned in the OIG's report, it likely is not one that we will see in the future because this really is a crime that is organized around rings and ring leaders. With that being said, and I think this is probably some of the most important information that I can share with you today. While it is a situation of ring leaders, those ring leaders are recruiting other individuals and those individuals are those who are contacting your institutions oftentimes.

This makes it difficult to substantiate the person's intent. Even if there is a geographic pattern, which is suspicious, it makes it difficult to substantiate intent. When we talk about: what are realistic things that I can take back to my institution? What are the types of procedures that we could potentially implement at a low cost and something that would be relatively easy to incorporate?

I would first highly recommend that you develop and work with others in your institution to develop reasonable triggers of suspicion, such as the multiple faxes, such as if a person cannot answer rigorous challenge questions. Challenge questions themselves are also very easy. It should be something that the person knows but just is not obvious. We typically will ask people to substantiate or to verify: what is your program of study? Or: what was your last class? Or: what grade did you recently receive in X course?

And if people don't know those things, that's a bit of a trigger that someone ought to know something like that. So triggers of suspicion, something that is trainable across all staff in the institution. That way you're being consistent and not singling out or putting the institution at risk of being charged with singling any one individual out for unfair treatment. The other is developing standards of acceptable documentation. What does that mean?

Well, I don't know if you all receive a lot of faxes. We receive a lot of faxes but the quality of faxes especially when it comes to any sort of identification for a person; it's really bad, really bad quality. A lot of state-issued photo ID's, if they're required for anything in your process, if you don't tell people, "Blow it up. Magnify it," they just come across as unreadable squares. What we have begun to do is to request that individuals provide us with their state-issued ID's in a scanned color copy that is e-mailed to us.

We are beginning to roll out a procedure – And this is very contrary to who we are as an institution. We are an open access institution. But it has really come to the point that we need to validate the identity of those who are coming here, from the standpoint of: do they live where they say they are living? Let's see the ID, and let's get it in some sort of very high quality resolution that we can begin to substantiate. And if it doesn't then we're going to ask for more. Then we will ask for official high school transcripts from the high school, or official GED record from the agency that issued the applicant's GED.

That's what I mean when we talk about validation procedures as well as challenge questions for identity verification. The federal verification process itself, we found was rather effective. We had implemented some more rigorous verification procedures and we did this throughout the last academic year. And while we did find it somewhat helpful, the administrative burden that it also brought to the Financial Aid Office was quite challenging.

I think that striking a good balance between your Admissions Office and your Financial Aid Office is a really, really good start. In addition, we also withhold disbursements until after students have been validated to be participating in class. And we have also created an academic integrity database that also, in the sense of the APUS example, helps us to – It flags us for plagiarism, academic misconduct, and those sorts of things.

It's based on Microsoft® SharePoint. SharePoint is a great, great tool that you can begin to leverage to aggregate data. If anyone would like to chat more about that or get more information about some of the things that we're doing, I'd be more than happy to speak with you after the session.

While we have to remain persistent, it is a bit of a frustrating endeavor doing all of this, and especially if you're working at a school and you're running into this, you know that it can be frustrating. We do see that when we roll out an intervention, it might take a little time but the people on the other side; ring leaders typically, come to match us. And then it becomes almost like this arms raise of: what are we going to do next to improve ourselves and insulate ourselves even further?

How do we make ourselves an even less attractive target? I think that from a long-term perspective of continuing to stay motivated to this cause is to look at it that there are short-term – On the short-term, yes, definitely we have to do all that we can to try to prevent people from coming to school for the wrong reasons. But in the long-term, we do have to recognize that it is an evolutionary type of improvement that once you get started on this as an institution, you really need to have the institutional will to continue to see that through.

So monitoring for the triggers of suspicion and if you see that, someone's getting wise to this, you're going to need to bump up the volume on it a little bit and try the next incremental level of security there. And, of course, continue to work closely with the OIG. With that, I am going to turn it back over to Gary who's going to share with us some of the recommendations of potential opportunities at a federal level for addressing this. Thank you.

Gary:

Thank you Ryan. I'm constantly reminded that I now work for a for profit, publically traded institution. I feel the need to add a disclaimer to my comments. The disclaimer is that anything that I say is my opinion, not necessarily the opinion of American Public University System. But I also need to advise you that in this

litigious society that you should not make any investment decisions based on any information that I share, as I many have inadvertently misstated something. With that, let me continue.

Ryan, one of the points that he hits on head, is that you're a target if your tuition is low. Our tuition is low. We have not increased tuition since 2001 and we do not charge undergraduate students for books. So right off the bat, we're a target. We're a lower cost than the average four-year, public institution in the United States. This is a growing, online phenomenon and calls for broader solutions.

What I want to do is get you to think about what some of those broader solutions are and whether you think that you would like to be a part of the solution in working with Dave's office and Bill's, and trying to implement some additional solutions or encourage through legislature and members of the Department of Education to put forward some additional initiatives to try to do this at the federal level.

We are battling organized crime, 21st Century organize crime. We cannot use 20th Century techniques. So what do we do? Well, we need to be involved in a partnership. This really is about partnering with the Department of Education and Congress to get some solutions. Schools are to be held accountable for the results and I believe more help is needed in this federal partnership. Whether we like it or not, everyone who wants to know what you do, when you do it, and how to find you, is able to do just that, except maybe your parents. They may still be living in the 20th Century.

So one of the things that I think we could start looking at and I encourage a discussion about is expanding front-end federal monitoring. The FAFSA federal data matching process is weak at best. We could be matching the Bureau of Prisons, Social Security Administration, IRS, unemployment rolls, Welfare and Food Stamp rolls, and catch a lot of the duplication and misreporting of information up front. Wouldn't it be nice to have some administrative burden taken off our plates?

Now we're all concerned about big brother getting bigger, but they know where you are, they know what you're doing, and they know when you do it. Students and groups move from school to school to maximize the refund opportunities and we need to find a way to track that better. And we need help to do that. Imagine the small community college in the Midwest who has very limited resources, a low tuition. How are they going to track that? And when that

fraud ring from Mississippi and Georgia figures that out, if they're offering online courses, that's going to be a problem. It's just going to get worse.

If your institution's like ours, we don't want employees sitting on Facebook all day. It is only because we have dedicated personnel using their own computers and their own time, that they discover chatter on social websites to assist in identifying fraudulent activity. This comes back to us all the time. We would like to see, maybe, some more cross-matching of the federal databases and internal cross-matching of the FAFSA applicant databases for student movement.

Maybe one of the ways is that as they add additional schools, the new school is the one that's going to see that. The old school may not, and there has to be some way to back and forth have that communication and make it stronger. High school authentication process, cross-matched state databases, be careful in some states. Populate the master national list and make it available to everyone and match it upfront in the FAFSA process.

I would advocate giving us some help in cost attendance. Direct versus indirect costs in student budgets are a topic that is close to my heart and my institution's heart. We would prefer not to have to give large refunds to students studying online at all. We don't think it's necessary. I understand that there are institutions that are dealing with students who need the extra money to pay for legitimate expenses and that should be an institutional call. I'm not saying that we should legislate. I'm saying, "Give us the flexibility."

We don't have that flexibility. I was hoping that we would get that and I'll talk about that in a minute. We have to limit the attraction of low cost schools, low cost targets. Controlling the environment upfront is key. In professional judgment, we identify groups by streets, zip codes, as I mentioned earlier. But we can't apply that across the board. Help us. Let us apply that more broadly. Do we have to wait for a trial and jury to limit the incidence of crime? On the backend, we could probably do a whole session on how the R2T4 Process could be changed so that we're not giving away so much money in that process.

Improving communication; this partnership is across all standards. Knowing the activities that are going on with the OIG's office, the groups that they're targeting, getting some more information about watch groups that we should be looking at nationally, somehow

figure out a way to feed that information to us, status updates of ongoing investigations. There may be some legal things about a Bill on those issues, but start the dialog and see if there are ways that we can do something about that.

Finally, I was very disappointed in experiment Number six in the experimental sites: listening. I was looking to that to help us curb over-borrowing by students and instead, subsidized loans are expressly not included in the experiment. If you're online and your tuition's low, Pell Grant can cover it. You really don't need to have subsidized loans being refunds. That's what we're trying to avoid, but this doesn't help us.

It creates a lack of loan availability for particularly community colleges that are concerned about high default rates, jeopardizing Pell eligibility for students overall. For profits must reduce tuition in this experimental site and at the same level, the reduction of loans. Low costs cannot comply with this restriction. We can't reduce tuition to close to zero. Those are just some things to start the dialog going. And I open this up to Bill to give you perspective from the OIG.

Bill:

Thank you Gary. I know it's getting late, so I'll be quick. First I want to thank FSA and David for inviting us to be here to talk to you about our report. Obviously it's an important issue to us. It was important enough for us to issue a report and I think I want to put that in a little bit of context. On the investigative side of the OIG, we don't issue very many of these reports. We generally –

Our work speaks for itself and publically as people get prosecuted, but in unusual circumstances where we've done a body of work and we see vulnerabilities or issues where we think we can make meaningful recommendations to try to stop the fraud and be preventive, which is really what I'm going to talk to you about – being preventive – then we issue these reports. So thank you David.

In a perfect world, I'm out of a job. There's no fraud. But I am gainfully employed. That being said, we shouldn't be making it easy for people to commit fraud. I'm a native of Philadelphia, so I had a healthy dose of Ben Franklin, and he had a lot of quips for things. I think this is an important one: "An ounce of prevention is worth a pound of cure." And I would translate that into the world of fraud as: don't pay in chase. It's a really hard thing to do. You rarely get back what you lost and it costs an awful lot, a huge investment in time, to try to get it back.

Just a quick poll, how many people have actually read our report on the fraud rings? Okay, thank you. For those that haven't, on the last slide I have the link to the report and it's online on our website. You'll be able to read it. It's sort of fitting that I'm here in Las Vegas to talk about this. *[Laughter]* Well, no, because the very first of our fraud ring cases – Actually, we didn't know it was a fraud ring. We hadn't coined the term "fraud rings" yet.

It was back in late 2003, but we got a call from a Financial Aid Officer at one of the community colleges here in Nevada, making a complaint about some unusual information that she was getting on the phone. We started to look into it and we found that a woman named Ann Armstrong had basically employed her entire family to engage in what we now consider a fraud ring. She later moved to Ryan's neighborhood and then started going on to Arizona and the Phoenix schools.

However, before she was done and her family was done, they had done well over a million dollars in fraud and it was a huge investment for us to get the indictments and get the prosecutions. We learned a lot from it. But we really didn't know what a fraud ring was until we sort of began to analyze that and started to see that pattern happening. So it is sort of serendipitous that I'm here in Las Vegas since it was really where our first big prosecution was.

Also, timing is everything. Earlier this month we arrested 26 people in two separate rings: 14 in Mississippi, and 12 in South Carolina. But I think it's important to note, as Ryan said, and as our report says, those are very small fractions of the number of people in those rings themselves. I'm not sure that we're ever going to see another Rio Salado case where ever member or known member was prosecuted. It is tough.

One of the things I want to point out is participating Title IV schools – you're the fiduciaries for the Department. You're our agents. We consider you government employees for the purpose of distributing the vital service of getting aid out to students. So therefore, we sort hold you to a higher standard. And we look to you, as David said, to be the front line of defense against fraud and in that regard, in doing that service, we do hold you to a higher standard.

So I want to talk a little bit about one of the regulations that I think is really the most key and vital regulation, which is 34CFR668-

16(f), which the one that immediately comes before the one that Ryan talked about which is (g). And that's the requirement to report credible evidence of fraud to the OIG. But this is really sort of the crux of the issue. And this is about requiring schools to have an adequate system to be able to resolve discrepancies in applicants' data when they're applying.

And what it says is – I don't want to read the whole thing because I don't have a lot of time. You should know it. But, you have to find a way to do the additional verifications you need to do to satisfy yourself that the information is correct, and resolve those verifications. One of the things that I think is important to note about that is that – that's just a discrepancy. We're not even talking about fraud here. We're just talking about information that you believe is not right and you can't disburse that aid until you know that you, to your satisfaction, have resolved that discrepancy.

What we would say to you is that, if you got to the point where you developed information such as Gary or Ryan said, where you really had credible evidence that there's a fraud going on and you're into the next part of this regulation in (g), what we'd say is: you have a bonafied, irreconcilable discrepancy. In other words, you are unable to resolve that discrepancy. We don't expect you, as our fiduciaries, to be our investigators for fraud. That's our job. We expect you to resolve the discrepancies.

So, to the extent that you have really a bonafied, unresolved discrepancy, you really should be disbursing the aid. And I think what's important to note is that this section of the regulations is really a lower threshold, much lower threshold, than the other. The other thing to point out, and what makes the two distinct, is that – And I talked to David about this because I wanted to make sure I was right. I couldn't find anything in Section (g) that says you can't disburse aid because you made a referral to the OIG for fraud.

What we're saying is the reason you're not disbursing that aid is because you haven't resolved the discrepancy. The fact that you made a referral is a regulatory requirement, but that's not the basis for the denial of the aid. What I wanted to talk about is some of our experience in dealing with some of the schools and some of the issues that you've dealt with, with some of these fraud ring members, because some of them are pretty aggressive.

They will call the school and they will threaten, "I'm going to my Congressman. I'm going right to the President, or the Secretary." I'm going to sue you if you don't disburse my refund." They get

belligerent and we've had a couple of schools where what they've said is, "Well, you know what? We're not disbursing this aid because we think you're committing a fraud and we referred it to the OIG."

Now technically, and I conferred with David about this, that's not technically correct. You didn't disburse the aid because you didn't resolve the discrepancy, not because you made the referral to us. But the telling the bad guy or the potential bad guy is sort of problematic in some other ways. *[Laughter]* Some obvious one – You're tipping them off and you're letting them know – I will say this. We've had a number of cases where then they filed FOIA's with us – Freedom of Information Acts.

Bad guys engage in counter-intelligence. They want to know what the government is up to. They want to know what you know. They want to know how much exposure do they have? These are smart people. My experience is a lot of these are pretty smart people, the ring leaders at least. So they're being aggressive. And what we're saying is, "You need to stand true. Be tough. Do your job, and stand by your principles that you've made a decision. You couldn't resolve that discrepancy. Don't award the aid."

I got an interesting question yesterday after the session where a woman came up to me who works in a school. And she said, "Look, I'm in a quandary. I have a bind. We understand the regulations, but we're in the process of doing this verification and we're getting all this clean paper. I mean, it just looks perfect. So we feel like we have to disburse the aid." And she said, "We can't not do it on a hunch." And I said, "Well, I agree. A hunch is not something that you've experienced with your five senses, and you've obviously raised the matter or you've referred it to our office, so you've kind of gone over the threshold. You've moved into the next level."

And she said, "Yeah, but they provided all this clean paper." And I said, "Well, look. I would imagine there were other factors and other information that you have besides the fact that you had this irreconcilable discrepancy." The other thing that I think is important is that these schools have very broad (under the law) authority under professional judgment. And it goes both ways. It includes being able to award aid to a person who say –

Or awarding a Pell Grant to somebody who's parent's recorded a million dollars of income on their FAFSA and they come to the school and say, "Well actually, my parents were a victim of a

terrible Ponzi scheme and now we have no money." You have that authority to change data elements. You can do it the other direction as well. If you use that same authority to not disburse the aid because you believed that you couldn't resolve the discrepancy. If you really couldn't resolve the discrepancy then you should award the aid.

I think it's sort of an important distinction and it's an important way to think about this activity, when you're looking at this. The other thing I would point out is that we are always happy to provide technical assistance. We get calls all the time from school administrations saying, "What do you think about this? What do you think about that?" They're always case specific or fact specific, but part of our job is to try to answer questions and try to determine whether there's an issue that really appropriately belongs in our office or not.

On our website – you just go to <http://www.ed.gov> and you scroll down to the bottom right where it says *Inspector General*. You click on that and there's a contact list. What I would implore you to do is to contact the Regional Office that is closest to you and ask to speak to a supervisor if you have questions about things that you're seeing, concerns that you have. Because I think a lot of times we can answer questions and help an institution move in the right direction one way or another.

It's just all about prevention because, frankly – Like I said, I'd like it to be a perfect world. I'd like to be looking for a different kind of job. But I know that's not going to happen, and what we really would like to see are these kinds of cases being mitigated by activities that the Department can take and that you can take to help not put the money out there so we don't have to pay and chase. That concludes my remarks and I think we're happy to answer questions even though we're running a little late.

There should be a microphone for questions.

David: There's a microphone on that side of the room. We probably only have time for one question because somebody will come and wave a stop sign at me and – yes? Go ahead.

[The mike did not pick up the audience voices and they were very difficult to hear.]

Audience: I have had a lot of communication with the Office of Inspector General and had really good response in most instances. However, one of the first questions asked is: how much money is on the line?

And if we're trying to prevent fraud, how can we evaluate cases on the bases of what money is on the line?

Bill: Well, I think that the reason we ask that question is –

Audience: Could you repeat the question?

Bill: Oh, I'm sorry. The question was that in interactions with my office we're often asking the question of the caller: how much money is involved. And a lot of times the caller may not know. Well, the reason we ask that question is the U.S. Attorney's Offices who prosecute these cases often have thresholds. And things that don't meet thresholds aren't going to be prosecuted. So it really is not good use of our time and our service and our tax payer money to pursue those.

Audience: Then how are we able to prevent this? We have to disburse the aid –

David: No you don't.

Bill: Well you don't have to disburse the aid ma'am.

David: That's the point. If it gets to the place where you're making a referral, you've already passed the point where you have discrepant information that leads you to believe that that student should be receiving the aid and you should just say, "No." You're not disbursing the aid. You're exercising your professional responsibility under the reg, the 668-16(f) and just say, "We cannot resolve the discrepancy in the information that you provided to us and that we have in our possession. So we are not disbursing it."

Audience: But will the Office of Inspector General go after that family if there's no money that's been disbursed?

Bill: That depends. And those are all case and fact specific. I really couldn't answer without knowing. We have two other questions here.

Audience: I'm from one of the 112 California Community Colleges. I think I have you beat on tuition. It's \$36.00 per unit right now, \$46.00 in the summer. So fraud is rampant. We're the hotbed and the go to schools with _____. So first of all, William, you have fabulous staff in your _____ office. I just want to say that.

Bill: Thank you. I'll let them know. I appreciate it.

Audience:

I think the question from ____ (this is not a formal request) is what kind of interaction – If you have a taskforce that is between you, the Department of ED, and schools – financial people? Because I think we really do need to come up with more of a preventative – Where this is going, but the fact of the matter is, if you can't prosecute because there's no money disbursed, and that is the way we're getting it, then we want to come up with better solutions. Let us help you, that we're able to give the right money to the right students. And I would like to be on the taskforce.

David:

Let me say this. The Department has reviewed and been evaluating for the Inspector General and through an internal taskforce that has been evaluating the specific nine recommendations that were made. We're also looking at other things that we think would be appropriate to do in response. What we're attempting to do is to go through our own internal vetting process. At some point in this process, it's going to go to another step.

If we, for example, decide that there's some legislative changes that should be pursued, the IG made one recommendation for a change to make related to direct expenses and limiting the aid that can be provided to just direct expenses, then we have a venue for that. We'll include it in our legislative proposals in support of the next budget. If it's a regulatory matter –

And we have to do that. We can't really involve you in those conversations because they're executive branch responsibilities for our coming up with our legislative proposals. And the time is short because our budget is due to Congress the first week in February. So that part we have to own. If we get to a place where we're talking about regulatory changes, as we've all talked about in other venues at this conference, there's a process for that.

If I decide I'm going to pursue a regulatory change, and I'm not saying today whether we are or we are not. It starts with the public hearings. It starts with forming a Negotiating Committee and there's a Negotiating Committee that involves the _____ community in that process. That's the way that's structured. The administrative remedies are a significant part of this and yes, institutions will be involved in those conversations.

Yes, one more and then we've got to go because I'm going to get chased out of this room for sure.

Audience:

I was going to thank all of you for sharing your stories and your ideas. I thought Gary had a lot of great ideas there. I guess one of the things I would say with regard to Bill – And this is has come with the other two people here in your comment of: "Don't pay and chase." I think my sense, and I've worked very closely on hundreds of fraud cases with the Chicago IG office over the course of the last two years. And I've gotten great response from them. I appreciate all of their efforts. I've got no complaints of the office whatsoever.

But I have the sense that the OIG offices have the same problem that many of our offices do too and are very much understaffed in terms of the influx, in terms of not only students that we're dealing with and the cases that we're dealing with. And the perception that I have had, as the other ladies mentioned, whether true or not, is if money hasn't been disbursed, of if a certain threshold hasn't be passed, then they don't have the resources to go after it. I completely appreciate that and I understand how you have to make some of your administrative decisions like I do based on what you have the resources and not.

Because I really would love to do some of the things that are being done at APSU and I've done them to the extent that I can, but I don't have the IT resources and the staff to attack some of the things that I want. So I guess my last point on there would be we need help at a different level, or federal level to help attack this because I don't know that we all can individually in cases. And I guess the very last thing I'd say is one idea that I had. I mean, this is one piece is: let's get a national tracking system for SAP and continuing on along those lines.

That's probably one of the few good things that came out of Spelling's report years ago and hasn't gotten acted upon. We've got the whole Pell runners and we've got the freeway hoppers. We've got people going from school to school to school after they SAP out and that's just one way you could try to stop some of them.

Bill:

Thank you.

David:

With that, they're waving me in the back of the room. Thank you so much.