

## **Eye on ED Podcast – Episode 12**

### **Student Aid Fraud Rings**

Federal student aid exists to help people make their dreams of higher education a reality. But every year, unscrupulous people target the student aid programs for their own selfish purposes that have nothing to do with education. There are many types of student aid fraud, including underreporting income and lying on student aid application forms in order to obtain more aid; fabricating eligibility like falsely claiming you have a high school diploma or GED in order to receive aid; corrupt school officials who abuse their positions of trust to steal student aid, and one we'll talk about today – student aid fraud rings. What are student aid fraud rings? How do they operate and what is being done to stop them? We'll dive into all those questions and more on this episode of Eye on ED.

**Music Intro:** This is Eye on ED, the official podcast of the U.S. Department of Education Office of Inspector General where you'll find the latest news about our audits, investigations, and efforts to find and stop fraud, waste, and abuse in Federal education programs, operations, and funding.

**Ryan:** Welcome everyone to Eye on ED, the official podcast of the U.S. Department of Education, Office of Inspector General. I'm your host Ryan Traher.

In today's episode, we're going to talk about student aid fraud rings. Student aid fraud rings are groups of criminals —often large or loosely affiliated—who seek to exploit online education programs in order to get their hands on Federal student aid. Although some of the people who participate in these rings do so willingly, fraud rings often steal the personal identifying information of others for their schemes. To tell us more about student aid fraud rings are two people on the front line in the fight against Federal education fraud, OIG Assistant Inspector General for Investigation Services Jason Williams and Isabel Douroupis, Assistant Special Agent in Charge of the OIG's Eastern Regional Office. Jason, Isabel, welcome to Eye on ED.

**Jason:** Thanks for having us, Ryan.

**Isabel:** Thank you, happy to be here.

**Ryan:** Alright—let's jump right in! Jason, Isabel, tell us about student aid fraud rings – how did they come about and how do they operate?

**Jason:** Okay, I'm going to take us on a little bit of a history lesson here. But, with the advancements of technology in the late 1990s and early 2000s, the internet really exploded. And schools began offering students the opportunity to earn their degrees entirely online. This opened the door for more people to earn a college degree, more than ever that we had before. We're moving away from the time we had correspondence courses and now people are able to work remotely. People like parents who could not attend classes in-person during the day or at night, are now able to login when they're able to, to complete their lessons. Also people in rural communities that lived hours and hours away from the closest college...this opened the door for a multitude of people to attend online education that really changed everything about our education system and the higher ed system in this country. As if you

had a high school diploma, the ability to access a computer and the internet, you could do a college degree on your schedule, without ever having to step foot on a college's campus.

**Isabel:** And people can obtain Federal student aid to help cover the cost of their degrees that like you said Ryan at the start of the podcast, to help make their dreams of a higher education a reality. But the explosion in technology and the availability of online education programs also opened the door to more student aid fraud.

**Jason:** Student aid fraud, of course, isn't new for our agency... we've been fighting it for decades. But, of course, as the technology evolved, so did student aid fraud. And one of the unfortunate outcomes of that evolution, was the student aid fraud ring. Ryan, as you mentioned before, a student aid fraud ring is an organized group of criminals who work together to steal Federal student aid. As all aspects of online learning and distance education, including the admissions process, student financial aid, and even the course instruction— it takes place on the Internet. The student is not required to be in person at any point during their program of study. Fraud ring leaders use the identities of others -- with or without their consent -- to target distance education programs. This enabled fraud ringleaders to participate and avoid ever setting foot on a campus and proving really who's on the other side of the computer. They exploit these institutions outside their geographical area, sometimes on the other side of the planet.

**Isabel:** And as Jason mentioned, these rings target the Federal student aid programs and the schools that administer the aid. Fraud rings can be small or large, but the larger the ring, the more student aid you can target. For example, a smaller fraud ring may target \$10,000 in Federal student aid, while larger rings set their targets much, much higher -- seeking to defraud the Federal government out of millions upon millions of student aid dollars.

**Ryan: So how do fraud rings work?**

**Isabel:** To understand how fraud rings work, it's important to cover how Federal student aid is administered, because that's the process they're abusing. Generally, to be eligible for student aid, an individual must have a high school diploma or GED, or have completed a high school education in a homeschool setting approved under state law. Next, they must be enrolled or accepted for enrollment as a regular student in an eligible degree or certificate program. The student must also have a valid Social Security number. And, you must provide consent and approval to have you or your parent or guardian's federal tax information transferred directly into your FAFSA -- which is the Free Application for Federal Student Aid form -- based on this information the Department of Education's Federal Student Aid office determines the amount of aid you are eligible to receive. The last thing you need to do is sign the certification statement on the FAFSA stating that you (1) are not in default on a federal student loan and do not owe a refund on a federal grant; (2) that you will use federal student aid only for educational purposes, and (3) that you are qualified to obtain a college, career school, or trade school education. All of these things matter as you cannot bypass or skirt them if you want to receive Federal student aid.

**Ryan: And once the amount of aid a student is eligible to receive is determined, what happens next?**

**Jason:** This is really interesting, once the amount of aid is determined, the office of Federal Student Aid office sends the full amount of the aid to the school the student is enrolled in or has been accepted to. The school takes its portion, for tuition and fees, room and board if you happen to live on campus – and provides any remaining amount – which is referred to as the student aid award balance – directly to the student who can use the balance for anything related to an educational purpose. Now, I know you're wondering, what is an educational purpose? These are things that are like to support your living arrangements, your daily needs or attendance at school, meal plans, groceries, textbooks, transportation to and from school, and, of course, if you have children, childcare expenses. Not things like fun trips to Miami for spring break or buying luxury personal items. These really aren't included in what we consider an education purpose. Those award balances are given to the students either on a prepaid debit card or deposited directly to the student's school account for them to withdraw as needed.

**Isabel:** And it's that student aid award balance that the fraud rings are targeting.

**Ryan: So how do fraud rings get their hands on those student aid award balances? And is it different for the smaller rings and larger rings?**

**Jason:** Small and large rings operate the same for the most part, it's really just a matter of how many people are involved with the ring and whether they are willing participants or whether they're using stolen identities in the scam. Student aid fraud rings are generally composed of one or more ringleaders who facilitate enrolling what we call "straw" students in an online program for the sole purpose of obtaining student aid. For the smaller rings, the ringleaders generally recruit their family and friends – people they know – to act as straw students to participate in the scam. The participants share their social security number, their date of birth, and other personal information with the ringleader, who uses that information to complete school admission application and also the student aid application as well. For those straw students who do not meet eligibility requirements, the ringleaders go through painstaking tasks, sometimes we've seen really good ones, and we've seen some really really bad ones, to create phony high school diplomas to make the student appear eligible. The ringleaders then load up the student aid application forms with false information to make the student appear eligible for the most amount of student aid. This includes lying about their income and even children that may or may not exist. So once the aid is awarded, and the school takes its portion, as we discussed earlier for tuition and fees, and then the straw student gets the award balance and splits it with the ringleaders.

**Isabel:** And that's how fraud rings generally tend to operate when the straw students are known to them. It's a little different when the fraud ringleaders use stolen identities in their schemes, which is what we see in the larger fraud rings. In these cases, the ringleaders create more than just phony transcripts and fill out FAFSAs with completely fabricated information. They also provide addresses, email addresses, and bank account information completely within their control, so they get all of the student aid award balances.

**Jason:** Like I said previously, we've been working on this for decades. And as the fraud has evolved, so have schools. Schools generally give students their aid award balances in at least two payments called disbursements. Student aid disbursement dates vary by school, but are generally between 10 days before the start of the semester and up to 30 days after

classes begin. It's that second date that really matters in terms of fraud rings as the ringleaders need to make sure that the straw student appears that they're actually going to school or that second disbursement won't be received. So the ringleaders are often take online classes for the student, completing and submitting the coursework – doing what they can to generate a record of the straw students' participation in the classes so schools are sure to authorize that second aid disbursement. Imagine that someone is feverously working behind a computer pretending to do classwork for 20 different people. They're completing school assignments for people that don't actually exist. If only they were investing their time in something legitimate and actually earning the credential and instead of being involved in a complex fraud scheme.

**Ryan: So the ringleaders often times are attending classes and submitting coursework on behalf of the straw students until that second disbursement is made. Do they tend to target any specific type of class – like the 101s or the general education or core classes students must take to graduate?**

**Jason:** Ryan, this is a great question – and the short answer is yes, they tend to target those classes, which can impact how legitimate students are able to get into the classes as all the spaces in these classes are limited and sometimes many of them are taken up by straw students. We've seen in some of our cases that this extends the time for a student to earn their degree, and they have to wait until another course becomes available so they can actually get in the class before it fills up with fraudulent students who are not there for an educational purpose.

**Ryan: Wow so these fraudulent students are impeding the ability for real students to get through their required courses on time. Do fraud rings tend to target student aid like Pell grants that do not need to be paid back, or student loans, which must be paid back with interest?**

**Isabel:** They target both, but they tend to prefer student aid such as Pell grants as it's less work for them in terms of the documents they need to forge. As your listeners may know, Pell grants are usually awarded to students who display exceptional financial need. The amount of Pell grant funds a student is eligible to receive is based on the expected family contribution or EFC that comes from information provided on the student's FAFSA. This includes the student or family's adjusted gross income, family size, and ages of family members. Fraud ringleaders tend to load up the FAFSAs with fraudulent information in order for the straw student to obtain the highest amount of Pell grant aid possible – so they will claim the student does not have a job or income and has dependent children or older relatives under their care to make their EFC zero. Again, it's all about getting the most aid you can.

**Ryan: And that takes me to my next question, who do fraud rings mainly target in terms of schools?**

**Jason:** The biggest target for fraud rings tend to be community colleges and lower cost institutions this is because their tuition costs are lower than other schools which increases the student aid award balance for the fraudulent student. Community colleges provide a valuable service to our education system but unfortunately, they are a very attractive target for thieves. I'm going to give you an example, the maximum Pell grant a student can receive is \$7,395,

and let's say tuition and fees for online courses at a community college comes out to \$4,000. That means the student receives a \$3,395 student aid award balance for education-related expenses. But as the straw students have no intention of attending classes, this money goes right into their pockets or back to the fraud ringleader who uses the funds on a number of things – none of which are education-related. For example, attending the NBA All-Star game. This actually happened in one of our investigations.

**Isabel:** And to add to that Jason, fraud rings also target community colleges because those schools tend to have more open enrollment, meaning you just have to be a high school graduate to attend, so fraud ring leaders have fewer documents they need to forge. But honestly no school is safe from being targeted by a fraud ring. Public and private 4-year colleges and universities have also been targeted by fraud rings.

**Ryan: So, this is something every school can encounter. What about people – who do they target or who participates in fraud rings?**

**Jason:** This runs the gamut. Some ring leaders encourage their family and friends to participate. All they need is your social security number, your date of birth and the ring leaders take care of the rest. These are not victimless crimes; they really disenfranchise students who are trying to improve their lives. And other times, the ring uses stolen IDs, creating hundreds upon hundreds of straw students. We have seen cases that involved IDs the ring stole themselves – from their own places of employment or a ring member's place of employment, or where they got the IDs through data brokers on the dark web.

**Ryan: All great information, thank you both. Can you elaborate on who are the perpetrators of these schemes? We've discussed how fraud rings are criminal enterprises with loose affiliations, but are there common characteristics you see between those involved that are seeking to defraud the Federal student aid programs?**

**Isabel:** The overriding common characteristic is greed. Simply greed. They see this as a quick cash for little effort scheme. Get some people or stolen IDs, fill out some paperwork to make it seem like people are going to be attending classes, in some cases attend the classes for them, and once that student aid award balance is received, leave, cash in hand, and run the scam at another school.

**Ryan: And, can you give us a couple of examples of some of the fraud ring cases the OIG has investigated?**

**Jason:** Absolutely. I'll start the one that really brought fraud rings into the spotlight 15 years ago. For us, this was kind of like the granddaddy of what we consider fraud rings. This was 65 people were indicted and eventually sentenced for participating in a fraud ring that targeted Federal student aid at Rio Salado Community College in Arizona. This was a really big singular event for the U.S. Attorney's office in that district and the district court to pursue this many people in a fraud scheme. You know, if I recall, Isabel, didn't you work on this case?

**Isabel:** Yes, I did with a case agent. The ringleader engaged four individuals to help recruit people to participate in the scheme, obtained their social security number, date of birth, other personal identifying information, which they used to apply for admission to the school, then

apply for student financial aid in the names of those straw students. The ringleader assumed the identity of those individuals to access Rio Salado's on-line classes, which she did until the second student aid disbursement was received. When the straw students received their student aid award balances, they kicked back a portion of those funds received to the ringleader.

**Jason:** And I'll share one of our more recent cases. A Defense Contract Audit Agency employee was recently sentenced in connection to a 15-year student aid fraud scheme. It took place over a decade. The employee was once a financial aid advisor at a university. He used that internal knowledge of how a financial aid office operates to use the personally identifiable information of about 60 people—some people with their consent and others without—to fraudulently apply for admissions to receive Federal student aid from over 8 colleges. When the student aid award balances were received, the employee pocketed all of it, occasionally sharing a portion with a consenting participant. But the majority of it was in his own pocket. The employee also used a portion of the money to pay a company that he directed to complete coursework for the straw students to maintain their eligibility for financial aid and in some cases some people were actually awarded degrees that they did not actually receive or work for. Between 2006 and 2021, the straw students were awarded some \$6.7 million in Federal student aid.

**Ryan: So in both of those cases, it appears the fraud ringleaders used the identities of willing participants or the IDs of people they knew. Could you give us an example of case involving ringleaders who used stolen IDs?**

**Jason:** Unfortunately, I have many examples, but sure. We had a case out of California where a fraud ring targeted more than \$3 million from some 8 colleges. The two fraud ringleaders obtained the personally identifiable information of unwitting people through data brokers on the dark web and used those identities to apply for admissions and receive Federal student aid in those identities.

**Ryan: So would you say that most leaders of fraud rings don't necessarily have prior criminal records or a criminal history?**

**Isabel:** We have seen both, Ryan. For example, we had a case in Colorado involving a fraud ring composed mostly of former prison inmates who were connected through family or periods of incarceration. The ring used the personally identifiable information of people to apply for and receive over \$488,500 in student aid. They obtained most of the information from stolen wallets and from unwitting victims, such as the business clients of a cleaning company run by one of the participants. Another participant used her position and access at the Department of Motor Vehicles to supply additional information needed to complete fraudulent admissions and student aid applications, and another member used her position in a bank to assist the ring.

**Jason:** Sometimes these fraud rings are family affairs. Ryan, I know you personally, so I know I can say this pretty safely, I like to hang out and eat dinner with my family, I don't know if I'd want to sit around with them and commit complex fraud schemes. One of the things that we saw recently was that we had a case involving a mother and daughter team who were sentenced to prison for their roles in a \$2.5 Million Fraud Ring. The two drove around their

hometown of Greenwood, Mississippi, recruiting people to participate in the ring – who willingly shared their personal identifying information (PII) with the leaders who ran that ring. They obtained the personally identifiable information of the recruits and then used that information to apply admissions and receive Federal student aid from online college programs, knowing that none of the people involved in the scheme planned to attend class. The student aid refund balances were sent to addresses controlled by the mother and daughter team. And then on the other side of the country, we had another team, another family affair, a father and son in Arizona who ran a fraud ring that targeted more than \$7.4 million in Federal student aid. They used the identities of more than 300 people—a good number of which were stolen IDs—to register for classes at community colleges in multiple states across the country. Upon receiving the grant and loan money for the straw students, the colleges disbursed a portion of the financial aid funds onto prepaid debit cards that the father and son then used for their own non-education related expenses.

**Ryan: Can you all elaborate on what are the consequences of student aid fraud rings?**

**Isabel:** Sure, theft of taxpayer money first and foremost, but like we mentioned earlier, there is an impact on honest, legitimate students in terms of access – students may not be able to get into the courses they need as those spaces are filled by straw students. Another consequence is the impact on professors, who may need to alter their lesson plans to include actions to help confirm if a student is legitimate, such as asking students submit answers to prompts, sign copies of the syllabus, or send other evidence to prove they are real before that second disbursement of student aid is released to the student.

**Ryan: Thanks for elaborating on that and what is being done to stop these fraud rings?**

**Jason:** Fortunately, quite a bit. First, schools that participate in the Federal student aid programs are required by law to report their suspicions of fraud to the OIG. So we work with the office of Federal Student Aid to share information to help schools and financial aid administrators identify and report possible fraud rings to the OIG. This information is publicly available on the Federal Student Aid Knowledge Center. Another thing that we do quite often is we conduct trainings throughout the year with financial aid administrators at events such as the Federal Student Aid conference and we also conduct in-person trainings with schools for those interested in more personalized one-on-one training session with us. Both of these can be found on our website. We also work with our law enforcement partners at the Federal, state, and local level to help educate and raise awareness of fraud rings and student aid fraud in general that's happening on campuses across this country.

**Ryan: Thanks for all that information. What are some signs for financial aid administrators that they could be looking at a fraud ring:**

**Isabel:** One of the best ways to initially identify potential fraud rings is to notice that something just doesn't seem right. There are a number of red flags to watch out for, which I'll highlight a few now:

- First, Multiple students with the same or similar mailing address, phone number, or email address.
- Second, Multiple students with the same financial account for deposit of credit balances.

- Third, Changes to mailing address or a financial account just prior to disbursement of credit balance.
- Fourth, Students attended multiple schools with little to no academic progress.
- Fifth, Multiple students with virtually identical online class schedules.
- Next, Multiple students attend the same online class from the same IP address at the same time.
- And finally, Multiple FAFSA applications submitted from the same area with similar household situations (i.e. single parent households with one or more children).

**Jason:** And if I could add just one more thing. This if for our student financial aid administrators – you are considered our gatekeepers. Use your intuition if something doesn't seem right report it to the OIG. Reporting your suspicions of a possible fraud ring to the OIG as soon as you identify it is the best way to stop this activity from taking place. We're here to work together with you to protect students and taxpayers.

**Ryan: So let's talk takeaways. What are the big takeaways for schools when it comes to fraud rings?**

**Jason:** For schools and financial aid administrators in schools - be vigilant, keep an eye out for all the fraud ring indicators that Isabel discussed, of course there is more information available on our website. And always feel free to reach out to the OIG for more information. We have a lot of training and a lot of information available on how to identify and report your suspicions of fraud. We're always here to help make sure that we are both protecting the U.S. education system.

**Ryan: And for all the other people, what should they be taking away from all of this?**

**Isabel:** First and foremost, don't participate. Participants in student aid fraud rings are prosecuted as well as the ringleaders. So if someone approaches you about an easy scheme to make a little money and all you need to do is give them your personal information – don't do it because we will find you and hold you accountable for your criminal actions. And second, remember fraud rings often use stolen IDs in the course of their crimes, so keep an eye out for mailings that you receive saying that you owe money on a student loan that you never took out, and your credit report in case someone took out a student loan using your personal information but not your address – and never paid it back.

**Jason:** And if I could add something more – educate yourself. Our website has a lot of information on fraud rings – from reports to press releases, our write ups and our results on these cases that are highlighted in our Semiannual Report to Congress, interviews on this subject with the media, from congressional testimony to info sheets for schools and the general public on actions to take to identify and also report student aid fraud rings, and all the things you can do as individuals to not become a victim. We're all in this together. So, if you go to your mailbox and you find that you received a letter from the Department of Education that you're not expecting, I'm sure your heart might've skipped a beat or dropped a little, make sure you contact the OIG. Also, as Isabel mentioned, check your credit report. If you see an entry from the Department of Education or one of the Department's servicers and you're not expecting that to be on your credit report, please contact the OIG hotline at [oighotline.ed.gov](https://oighotline.ed.gov).



**Ryan:** And we'll be sure to include that link in the transcript. Jason, Isabel, this has been an enlightening conversation. Thank you again for joining us today and shedding light on this crucial topic.

**Jason:** Absolutely Ryan, it was a pleasure meeting with you today as well and making sure we cover this important topic as you said.

**Isabel:** Thanks for having us Ryan!

**Ryan:** And thanks to our listeners for tuning in! Remember you can learn more about our investigations on our website. And be sure to follow us on Facebook, Twitter/X, and LinkedIn to keep up with all our work and efforts.

Until next time, I'm Ryan Traher with the U.S. Department of Education, Office of Inspector General, and this has been Eye on ED.