



United States Department of Education

Office of Inspector General

Special Agent Sandra Ennis

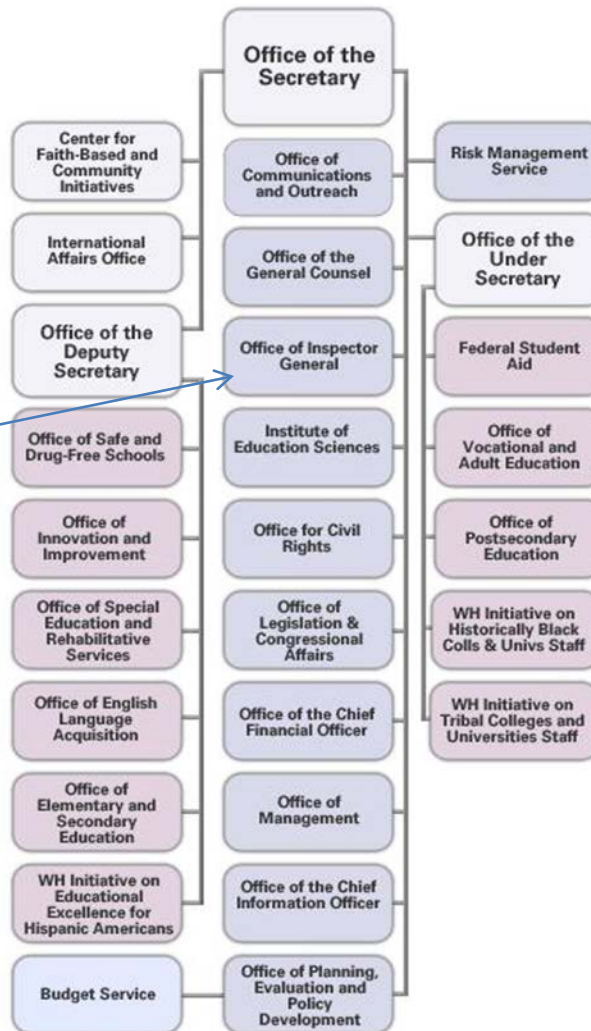
Agenda

- ❖ OIG Organization and Mission
- ❖ FSA and OIG Coordination
- ❖ Sources of Allegations
- ❖ Examples of Title IV Fraud Schemes
- ❖ Fraud Indicators
- ❖ Standards of Administrative Capability
- ❖ Civil Liability
- ❖ Criminal Liability
- ❖ Contact Information



Organizational Chart

Part of the
Department but
INDEPENDENT



Inspector General Kathleen Tighe

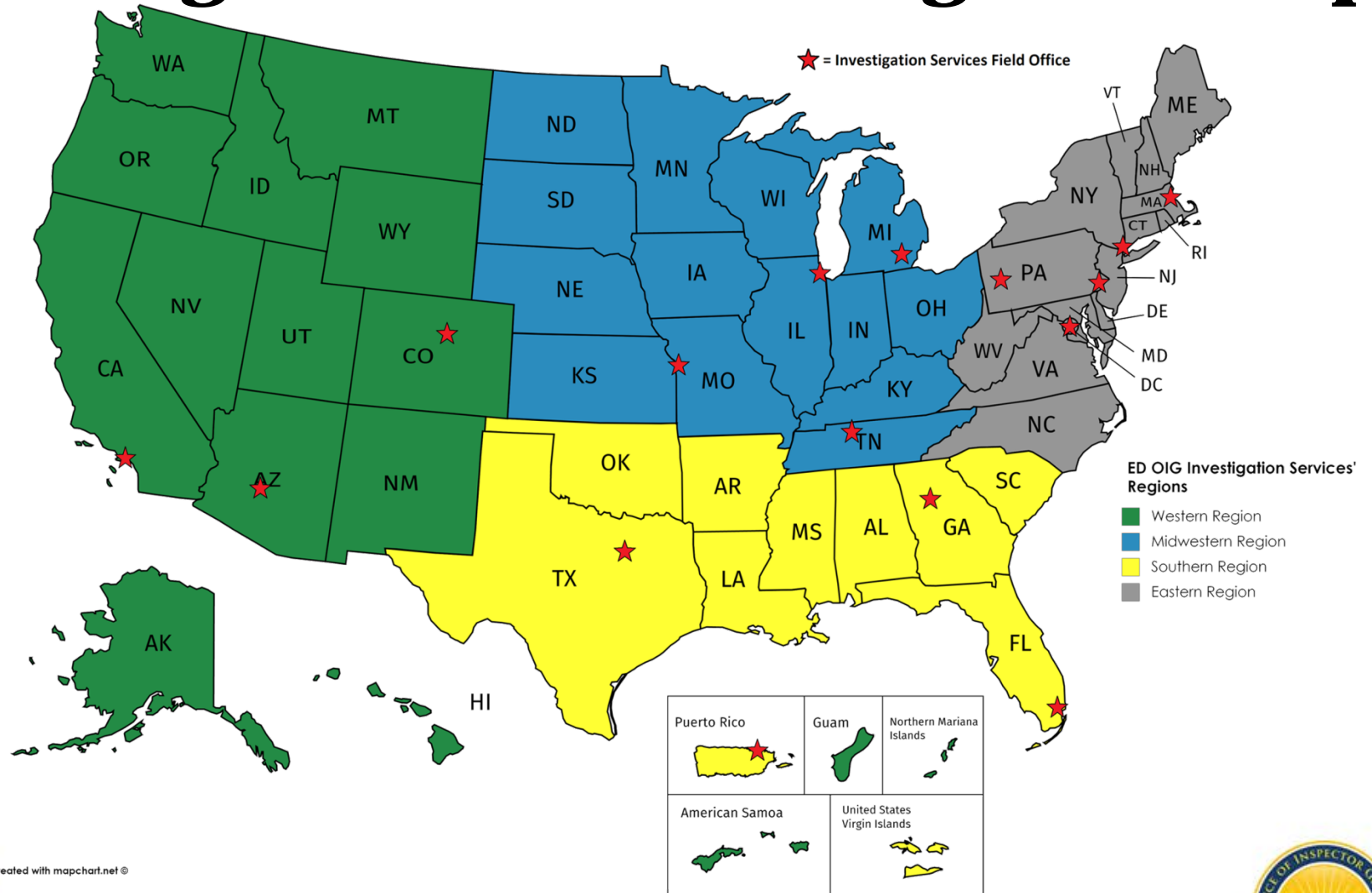


OIG Components

- ❖ Audit Services
- ❖ **Investigation Services**
- ❖ Evaluation, Inspection, and Management Services
- ❖ Information Technology Audits and Computer Crime Investigations
- ❖ Immediate Office/Counsel/Public Affairs



Investigative Services Regional Map



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Our Mission is Derived from:

Inspector General Act of 1978

- ❖ An Inspector General (IG) shall be appointed by the President of the United States
- ❖ Exists for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations
- ❖ Considered independent from the department it represents



ED-OIG Special Agents are Federal Law Enforcement Officers

Special agents receive training in:

- ❖ Interviews and interrogations
- ❖ Criminal Law
- ❖ Civil Law
- ❖ Program and Contract Fraud
- ❖ Firearms/Defensive Tactics
- ❖ Search and Arrest Warrants



Types of Cases

- ❖ Criminal
- ❖ Civil
- ❖ Administrative



Sources of Allegations

- ❖ School Employees and Officials
- ❖ OIG Hotline
- ❖ OIG Audits and Inspections
- ❖ Department Program Offices
- ❖ Private Citizens and Students
- ❖ Other Federal, State, Local, and Tribal Agencies
- ❖ U.S. Attorney's Offices/State Attorney General's Offices
- ❖ Qui Tam or Other Civil Actions



FRAUD

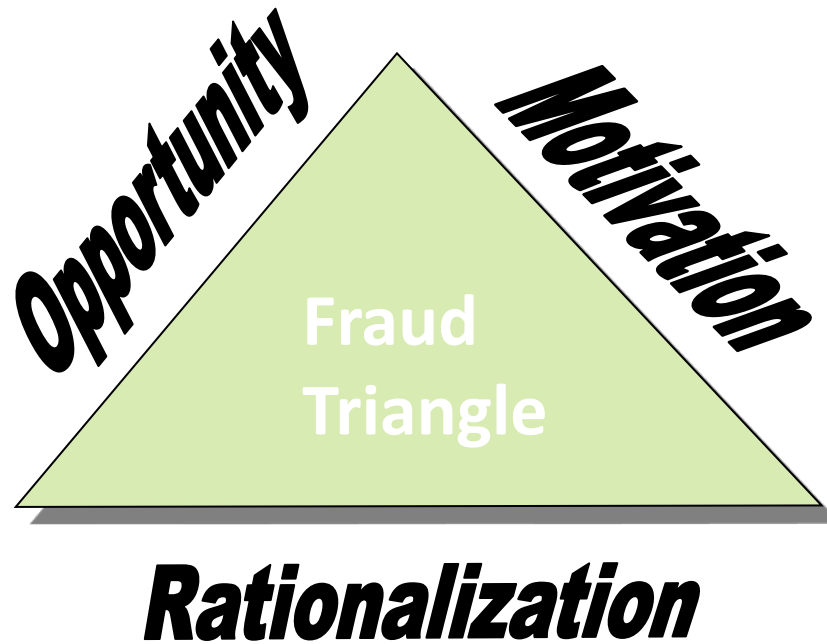
A deliberate distortion of the truth in an attempt to obtain something of value.

-or-

Lying and cheating.



- Weak controls
- Little or no oversight
- Lax rules



- Debt
- Addictions
- Status
- Greed

- Everyone does it.
- I was only borrowing the money.
- I was underpaid and deserve it.



Statutory Tools

20 United States Code, Section 1097

- ❖ Any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement, or forgery, or fails to refund any funds, assets, or property provided or insured under this [Title IV of the HEA]. . . .
- ❖ or
- ❖ attempts to so embezzle, misapply, steal, obtain by fraud, false statement or forgery, or fail to refund any funds, assets, or property,
- ❖ [commits a federal crime]



Statutory Tools

18 United States Code, Section 1001

- ❖ whoever, in any matter within the jurisdiction of the executive, legislative, or judicial branch of the Government of the United States, knowingly and willfully—
 - ❖ falsifies, conceals, or covers up by any trick, scheme, or device a material fact;
 - ❖ makes any materially false, fictitious, or fraudulent statement or representation; or
 - ❖ makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry;



Other Criminal Statutes Used in Connection with OIG cases:

<u>18 USC § 371</u>	CONSPIRACY
<u>18 USC § 1001</u>	FALSE STATEMENTS
<u>18 USC § 1341</u>	MAIL FRAUD
<u>18 USC § 1343</u>	WIRE FRAUD
<u>18 USC § 641</u>	THEFT OF GOVERNMENT FUNDS
<u>18 USC § 666</u>	THEFT CONCERNING FEDERAL PROGRAMS
<u>18 USC § 1030</u>	COMPUTER FRAUD/EXCEEDING ACCESS
<u>18 USC § 1024A</u>	AGGRAVATED IDENTITY THEFT
<u>18 USC § 1344</u>	BANK FRAUD



**Civil Action:
False Claims Act
31 U.S.C. § 3729**

- ❖ Knowing and Knowingly Defined.--For purposes of this section, the terms ``knowing" and ``knowingly" mean that a person, with respect to information—
- ❖ has actual knowledge of the information;
- ❖ acts in deliberate ignorance of the truth or falsity of the information; or
- ❖ acts in reckless disregard of the truth or falsity of the information, and **no proof of specific intent to defraud is required**
- ❖ Is liable to a civil penalty of not less than \$5,000 and not more than \$10,000, plus 3 times the amount of damages which the Government sustains because of the act of that person.



Administrative Remedies

In some circumstances, it may be to the agency's advantage to pursue a case administratively, rather than criminally or civilly

- ❖ The \$100 case
- ❖ The judgment-proof defendant
- ❖ Financial offset
- ❖ Suspension and Debarment



Examples of Title IV Fraud Schemes Related to Students

❖ FAFSA Fraud

- Social Security Number
- Alien Registration Status
- Dependency Status
- Income and Assets
- Number of Family Members in College

❖ Falsification of GEDs/HS Diplomas

❖ Identity Theft

❖ Distance Fraud Schemes



Examples of Title IV Fraud Schemes Related to Schools

- ❖ Ghost students
- ❖ Leasing of eligibility
- ❖ Default rate fraud
- ❖ 90/10 Rule manipulation scheme
- ❖ Financial statement falsification
- ❖ Falsified last date of attendance
- ❖ Obstruction of a federal audit or program review
- ❖ Fraud/theft by school employee
- ❖ FAFSA fraud - enrollment
- ❖ Falsification of GEDs/HS diplomas
- ❖ Falsification of attendance and Satisfactory Academic Progress
- ❖ Falsification of grades
- ❖ Failure to make refunds
- ❖ Loan theft/ forgeries



FERPA and the OIG

- ❖ FERPA provides that consent is **not required** in order to disclose student records to the Office of Inspector General. The regulations provide that representatives of the Secretary, which include OIG, may have access without prior consent in connection with an audit, evaluation, or enforcement of legal requirements related to the Department's programs.



FSA and OIG Coordination

The Office of Inspector General assists the Department in promoting the integrity of the Title IV programs.

- ❖ Review and comment on all regulations to suggest areas for improvement
- ❖ Regularly exchange information with FSA to identify current issues in compliance and abuse and coordinate oversight and investigatory activities when appropriate
- ❖ Issue management information reports to alert the Department about serious fraud and corruption trends.



How You Can Help



- ❖ Ensure that staff receive necessary Title IV training
- ❖ Review documents thoroughly
- ❖ Question documents and verify authenticity
- ❖ Request additional information from the students or parents
- ❖ Compare information on different documents
- ❖ Contact the OIG if you suspect fraud
- ❖ Cooperate with the OIG in connection with an audit or investigation



Case Examples



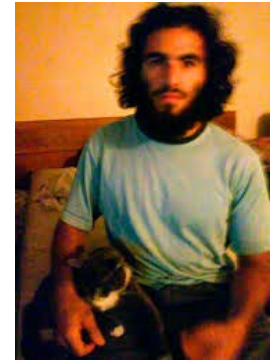
Prison Fraud Ring Using Inmate Information

- ❖ Referral from Pikes Peak Community College (CO)
- ❖ Approximately 183 applications containing names of inmates were submitted for federal student aid at several community colleges in Colorado and Arizona
- ❖ Scheme involved Trammel Thomas and co-conspirators submitting false claims for federal student aid using stolen identities of prison inmates
- ❖ The loss was approximately \$500,000
- ❖ 3 guilty pleas and one trial conviction



Terrorism-Related Investigations

“Three Minnesota men convicted of conspiring to join Islamic State” *U.S. Department of Justice, June 2016*



“Two Orange County Men Convicted of Conspiring to Join ISIL; They also Engaged in Fraud to Finance One’s Trip to Syria” *U.S. Department of Justice, June 2016*

The defendants (Muhanad Badawi, pictured) and were convicted of terrorism and fraud charges for using their federal student aid to purchase plane tickets so that they could travel to the Middle East and join ISIL. These cases are the result of an investigation conducted by the FBI-led Joint Terrorism Task Force with support from the OIG.

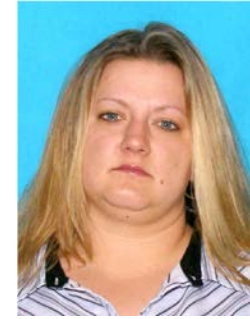


Derrick Anthony Valdez



- ❖ Valdez was employed by a for-profit automotive college in Arizona as a student benefits advisor
- ❖ Valdez forged the signatures of more than 150 students at the school on deferment and forbearance forms, then submitted them to the US Department of Education and its loan servicing partners
- ❖ Indicted on 5 counts in the Superior Court of the State of Arizona for fraudulent schemes and artifices, theft, and forgery





Crown College, Tacoma, WA

- ❖ Sheila Mullineaux was the former vice-president of Crown College, Tacoma, WA
- ❖ Mullineaux along with 3 employees obtained \$65,750 in Pell Grant and FFEL loan funds
- ❖ They obtained these funds for themselves and others by claiming to be students when they were not students
- ❖ Mullineaux planned to have her loans discharged after the school officially closed
- ❖ Two officials went to trial and were convicted. Two pleaded guilty.



Galiano Career Academy



- ❖ Galiano President Michael Gagliano used a "diploma mill" owned by his wife to make students eligible for financial aid.
- ❖ FSA conducted a program review at Galiano Career Academy in 2009
- ❖ FSA uncovered suspicious activity and a criminal investigation was launched.
- ❖ OIG later learned Michael Gagliano installed cameras and microphones prior to FSA's visit so he could hear their conversations.



Michael Gagliano, President Galiano Career Academy

- ❖ Sentenced for Theft of Federal Funds, Obstruction of a Federal Audit, and Aggravated Identity Theft
- ❖ Sentenced to four years in federal prison and restitution in the amount of \$2,105,761.00



The Rhodes Scholar

Rachel Yould

- ❖ Referral from USA Funds
- ❖ Individual legally received a second SSN based on personal safety issues
- ❖ Individual used her new SSN to defraud lenders out of more than \$600,000 in student loan money that she used to play the stock market, buy a condo and launch a startup business
- ❖ Received approximately \$240,000 in Stafford subsidized and unsubsidized loans in addition to almost \$700,000 in private loans through Sallie Mae and USA Funds
- ❖ Sentenced to 57 months



Program Fraud California Community College Anna Catalan



- ❖ Former director of the College Assistance Migrant Program (CAMP)
- ❖ Indicted on six counts of mail fraud for theft from a government funded program between June 2008 and April 2011
- ❖ Sentenced to 28 months incarceration; 2 years supervised release; \$89,000 in restitution



So what did Catalan do?

Devised a scheme to cause the issuance of stipend checks to current and former CAMP students and then take the checks and convert them to personal use without the students' knowledge

How did Catalan do it?

- ❖ Issued checks to former CAMP students no longer participating in the program
- ❖ Issued checks to students who were ineligible to be in the CAMP;
- ❖ Issued checks to current CAMP students in an ineligible semester
- ❖ Issued checks to eligible and current CAMP students who were unaware they received stipend checks.
- ❖ \$46,400 stolen and \$42,600 improperly issued



Commonalities Found in the Distance Education Fraud Rings Discussed:

- ❖ Common mailing addresses
- ❖ Common e-mail addresses
- ❖ FERPA consent forms with the same person representing different students
- ❖ Common IP addresses
- ❖ Suspicious, creative, or common themes on SAP forms
- ❖ Suspicious activity on campus with students



Fraud Risk/Indicators

- ❖ One person in control/no separation of duties
- ❖ Lack of internal controls/ignoring controls
- ❖ No prior audits
- ❖ High turnover of personnel
- ❖ Unexplained entries in records
- ❖ Unusually large amounts of payments for cash
- ❖ Inadequate or missing documentation
- ❖ Altered records
- ❖ Non-serial number transactions
- ❖ Inventories and financial records not reconciled
- ❖ Unauthorized transactions
- ❖ Related party transactions



34 CFR § 668.16

Standards of Administrative Capability

The Secretary considers an institution to have administrative capability if the institution:

(f) Develops and applies an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources with respect to a student's application for financial aid under Title IV.

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

Schools must also refer to the OIG any third-party servicer who may have engaged in fraud, breach of fiduciary responsibility, or other illegal conduct involving the FSA Programs and must include a requirement for the 3rd party service to report fraud to the OIG in their contract with that 3rd party servicer (34 C.F.R. § 668.25(c)(2)).



What to do if you suspect fraud, waste, or abuse...

- ✓ Do contact the OIG Hotline or Regional Investigations office.
- ✓ Do discuss your concerns with the OIG.
- ✓ Do seek answers to your questions in the normal course of business.
- ✓ Do cooperate with the OIG and expect to be contacted and involved.
- ✗ Don't "tip off" subjects of actual or pending investigation.
- ✗ Don't feel compelled to "prove" a case or intent.
- ✗ Don't "stop" your normal course of business unless otherwise directed.



What Can I Do To Avoid Trouble?

- ❖ **Report any irregularities early**
- ❖ **Have a system of checks and balances**
- ❖ **Create and follow established procedures**

We are here to assist you. We want you to succeed.



Why Report Fraud To the OIG?

- ❖ Statutory and regulatory requirements
- ❖ Ethical responsibility
- ❖ To deter others from committing fraud and abuse
- ❖ To protect the integrity of the Title IV Programs
- ❖ To avoid being part of a fraud scheme
- ❖ To avoid administrative action
- ❖ To avoid civil penalties
- ❖ To avoid criminal prosecution
- ❖ To avoid incarceration



How to Contact ED-OIG [Western Region]

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Adam.Shanedling@ed.gov
(562) 980-4136

Chris Hodge
Assistant Special Agent in Charge
Christopher.Hodge@ed.gov
(562) 980-4132

One World Trade Center, Suite 2300
Long Beach, California 90831



Local Contacts

- Sandra Ennis, Special Agent
(303) 844-4558
- Dana McKay, Special Agent
(303) 844-0058
- 1244 Speer Blvd., Suite 604A
Denver, CO 80204

Office of Inspector General's Hotline

1-800-MIS-USED

(1-800-647-8733)

-OR-

<http://oighotline.ed.gov>



Questions?

