



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF POSTSECONDARY EDUCATION

October 20, 2011

GEN-11-17

Subject: Fraud in Postsecondary Distance Education Programs - URGENT CALL TO ACTION

Summary: The purpose of this letter is to provide guidance to address potential fraud in the Federal student aid programs at institutions of higher education that offer distance education programs. This letter provides an overview of the fraud schemes that the Department's Inspector General (IG) detected, and recommends immediate steps that institutions can take to detect and prevent fraud. In this letter, we also describe further actions that institutions can take and that the Federal government is committed to taking, including increasing technical assistance to institutions of higher education, the convening of a Department-wide task force on distance education fraud, and plans for recommending legislative and regulatory changes to address the relevant issues.

Dear Colleague:

We appreciate the efforts that institutions routinely take to protect the integrity of the Federal student aid programs. Some of the fraud described in this letter was detected as a direct result of vigilant efforts pursued by institutions that have implemented comprehensive internal controls and fraud detection measures. Despite these efforts, more needs to be done by all institutions to prevent, identify, and report suspected distance education fraud in the Federal student aid programs and enable the successful prosecution of offenders. As evidenced by our recent work with the community on program integrity, we are committed to being a strong steward of the taxpayer investment in the student assistance programs and to ensuring their integrity. For these reasons, the Department determined a swift response was necessary and, through this Dear Colleague Letter (DCL), we are asking for your continued partnership to eliminate this and other attempts to defraud the Federal student aid programs. It is imperative that institutions comply with all existing statutory and regulatory requirements to disburse aid only to eligible students, to identify and resolve discrepancies in student information, to ensure that all requirements regarding "regular student" status are met, and to report any suspected fraud to the Department's IG. In doing so, your efforts will help curb these abuses and ensure that Federal student aid is provided to needy students as intended.

On September 26, 2011, the Department's IG issued a report about fraud rings operating on distance education programs offered by institutions participating in the Federal student aid programs (<http://www2.ed.gov/about/offices/list/oig/invtreports/l42l0001.pdf>). The IG's report identified an increasing number of cases involving large, loosely affiliated groups of individuals (fraud rings) who conspire to defraud title IV programs through distance education programs. These fraud rings generally target institutions with low tuition in the context of distance education programs and involve a ringleader who:

- Obtains identifying information from straw students – individuals who willingly provide the information – including some who were incarcerated, by promising financial gain.
- Completes multiple financial aid applications using the information collected (name, Social Security number, date of birth, etc.).

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- Applies for admission under the institution's open admissions program, where little or no third-party documentation is required.
- Participates in the amount of on-line interaction necessary to establish participation in the academic program and secure disbursements under an institution's procedures.

Once the ringleader has submitted the Federal student financial aid application and completed enrollment at the institution, the institution draws down Federal student aid funds, deducts the institutional charges assessed the straw student, and disburses the credit balances to the straw student by check or debit card. Straw students then give a portion of the proceeds to the ringleaders while keeping the remaining portion. If needed to secure disbursements under an institution's procedures, a ringleader may also participate as the straw student in sufficient academic work to appear to be an eligible student.

The IG's report found that complaints about distance education fraud rings are expected to continue, given that distance education is the fastest growing segment of higher education. Institutions offer the front line of protection and are essential to the Department's efforts to thwart fraud and protect taxpayer dollars. As you know, accrediting agencies are required to review the policies and procedures institutions have in place to verify the identity of the students enrolled in those courses and programs (34 CFR 602.17(g)). Affected institutions should follow these reviewed processes to help detect efforts to defraud the Federal student aid programs. We also expect institutions to take steps necessary to ensure that students are academically engaged prior to disbursing Title IV student aid funds. If students do not begin attendance, Title IV funds must be returned (34 CFR 668.21(a)). We strongly encourage institutions that suspect potential fraud to question an applicant's intent to seriously pursue the academic program by requiring the student to demonstrate that he or she has an academic purpose in order to establish eligibility for Federal student aid. If a student does not demonstrate academic purpose or resolve other concerns regarding identity or eligibility, the institution should not disburse Title IV funds.

Detecting fraud before funds have been disbursed is the best way to combat this crime. We therefore seek the help of institutions and advise that you take the following additional actions to identify and prevent the kind of student aid fraud identified in the IG's report:

- Implement automated protocols that monitor information in your student information data system to identify instances where a number of students –
  - Use the same Internet Protocol (IP) address to complete and submit an admissions application.
  - Use the same IP address to participate in the on-line academic program.
  - Use the same e-mail address to submit an admissions application.
  - Use the same e-mail address to participate in the on-line academic program.
  - Appear to reside in a geographic location that is anomalous to the locations of most students in the program.

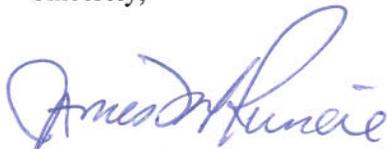
- Modify your disbursement rules for students participating exclusively in distance learning programs, which would immediately reduce the amount that fraud ring participants can receive. Institutions have the authority to:
  - Delay disbursement of Title IV funds until the student has participated in the distance education program for a longer and more substantiated period of time (e.g., until an exam has been given, completed, and graded or a paper has been submitted).
  - Make more frequent disbursements of Title IV funds so that not all of the payment period's award is disbursed at the beginning of the period.

Our recent program integrity rules include two additional requirements that help identify potential fraud. First, we now require institutions to have procedures in place to address what may appear to be a fraudulent claim of high school completion (34 CFR 668.16(p)). Since we now collect high school completion information on the Free Application for Federal Student Aid (FAFSA), institutions can use these procedures to help detect potential fraud. In addition, in the future, we may in our annual verification notice (which we publish in the Federal Register pursuant to recently-revised verification regulations found in Subpart E of 34 C.F.R. Part 668) specify certain additional items that would need to be verified, including high school diploma information and applicant identity for all or some of an institution's Title IV applicants who are engaged in distance education. The selection of these applicants for verification may be based on common addresses and other patterns and discrepancies noted in the OIG's investigations. Institutions are encouraged to verify identity of individuals whenever the institution, through use of similar methods and triggering events, finds cause for doing so as a best practice for preventing fraud.

The Department is taking this issue very seriously and has established a Department-wide anti-fraud ring task force, chaired by Jeff Baker, Director, Policy Liaison and Implementation in Federal Student Aid, to address the issues raised in the IG's report as well as emerging future threats. If you have comments and suggestions that you believe will help us address fraud rings or have specific concerns that do not rise to a level that you believe appropriate to refer to the IG, please contact the task force at [FraudTaskForce@ed.gov](mailto:FraudTaskForce@ed.gov) or call 202-377-4340.

Finally, we have added sessions to the upcoming FSA Conference in Las Vegas scheduled for November 29-December 2, 2011, to more fully discuss the IG report and possible institutional responses. We plan to release additional guidance after those sessions and will also consider suggestions for additional statutory and regulatory changes to help institutions combat fraud and protect students and taxpayers from fraudulent activity.

Sincerely,



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