U.S. Department of Education
Office of Inspector General

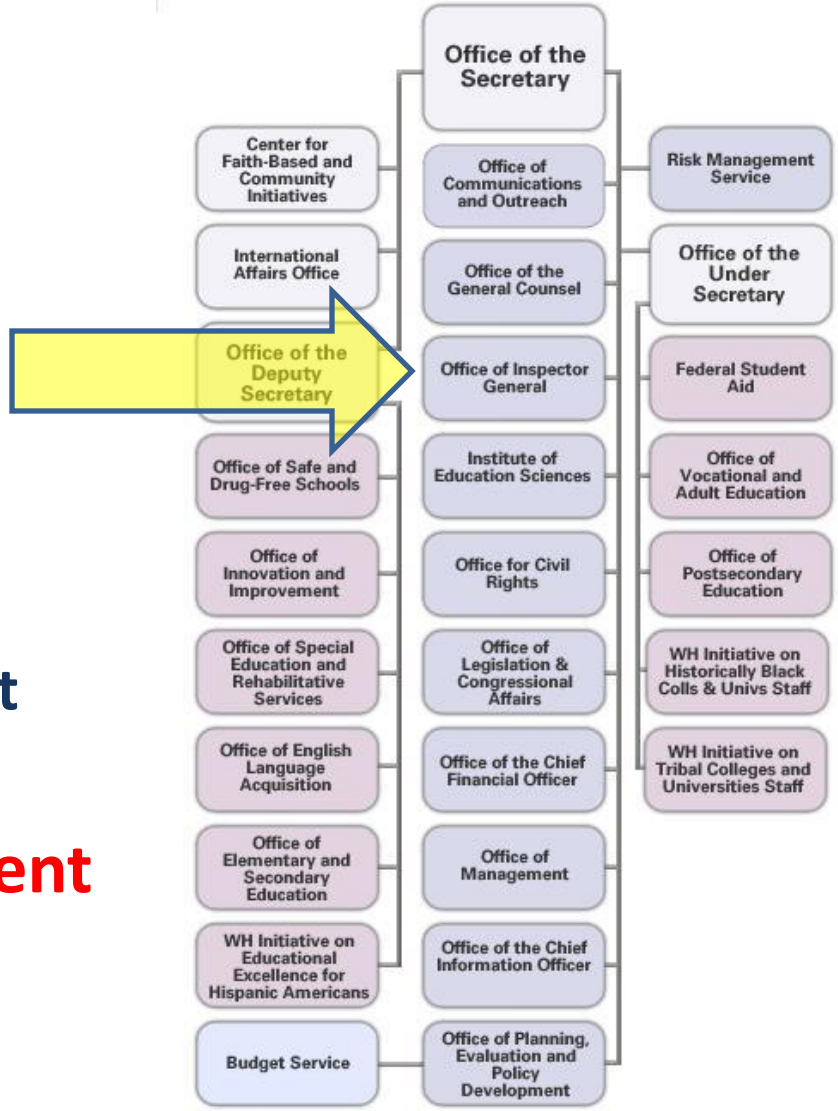
Fraud, Waste, and Abuse
Protecting Taxpayer Dollars

Presented by OIG Investigation Services

AGENDA

- OIG Organization and Mission
- FSA and OIG Coordination
- Sources of Allegations
- Fraud Indicators
- Examples of Title IV Fraud Schemes
- Detecting and Preventing Distance Education Fraud
- Standards of Administrative Capability
- Criminal Liability
- Civil Liability
- Contact Information
- Question and Answer

ORGANIZATIONAL CHART

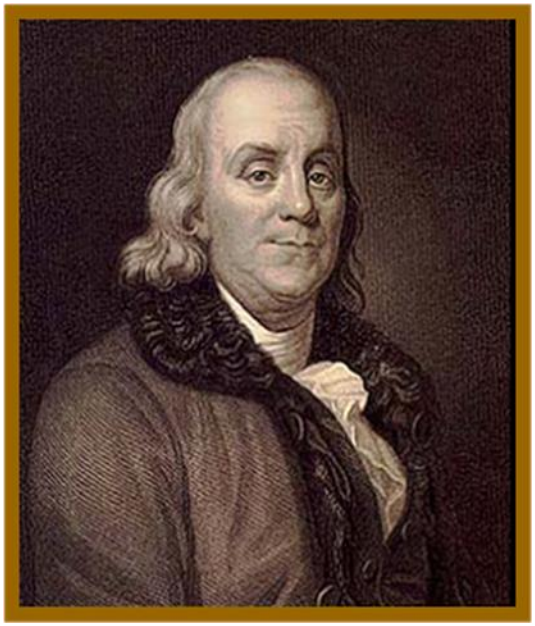


Part of the Department

BUT…

Independent

Inspector General Kathleen Tighe



"There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government of its revenues..."

Benjamin Franklin
November 1767

Inspector General Act of 1978

…to prevent and detect fraud, waste and abuse and improve the economy, efficiency and effectiveness of Education Department programs and operations.

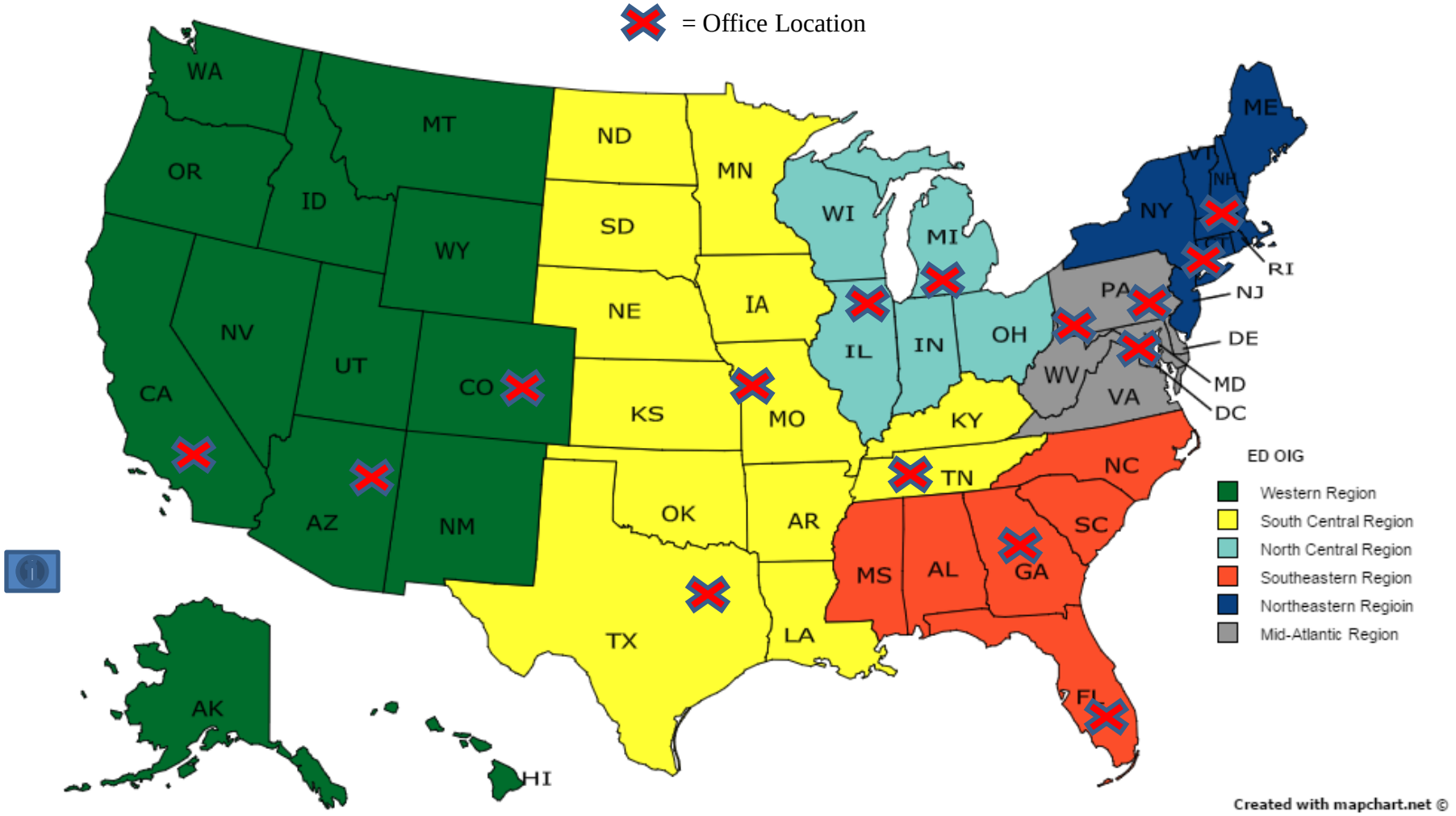
MISSION STATEMENT

To promote the efficiency, effectiveness, and integrity of the Department's programs and operations, we conduct independent and objective audits, investigations, inspections, and other activities.

OIG Operational Components

- Audit Services
- Investigation Services
- Information Technology Audits and Computer Crime Investigations

Investigation Services Regional Map



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

FSA and OIG Coordination

- Link to OIG's Distance Education Fraud Ring Investigative Program Advisory Report (IPAR)
  http://www2.ed.gov/about/offices/list/oig/invtreports/l42l0001.pdf

- Information for Financial Aid Professionals (IFAP)
  http://www.ifap.ed.gov/ifap/

- Dear Colleague Letter GEN-11-17
  http://www.ifap.ed.gov/dpcletters/GEN1117.html

- Final Management Information Report PIN Security Vulnerabilities
  http://www2.ed.gov/about/offices/list/oig/auditreports/fy2013/x21l0002.pdf

ED/OIG Special Agents are Federal Law Enforcement Officers

Special Agents receive training in:

- Interviewing/Interrogation
- Criminal Law
- Civil Law
- Program and Contract Fraud
- Firearms/Defensive Tactics
- Search and Arrest Warrants

Fraud

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

or

Lying and cheating.

Sources of Allegations

- OIG Hotline
- OIG Audits and Inspections
- Department Program Offices
- School Employees and Officials
- Guarantee Agencies
- Contractors and Sub-contractors
- Grantees and Sub-grantees
- Citizens and Students
- Competing Vendors/Schools
- Other Federal Agencies
- U.S. Attorney's Offices
- Other OIG Investigations
- State and Local Law Enforcement Agencies
- Federal Bureau of Investigation
- Qui Tam Actions

Evidence Gathering

- Statutory and Regulatory Access to Records
- Consensual Search/Access
- Search Warrant
- Court Order
- Subpoenas
  - Grand Jury
  - Administrative
- Interviews

Statutory and Regulatory Access to Records

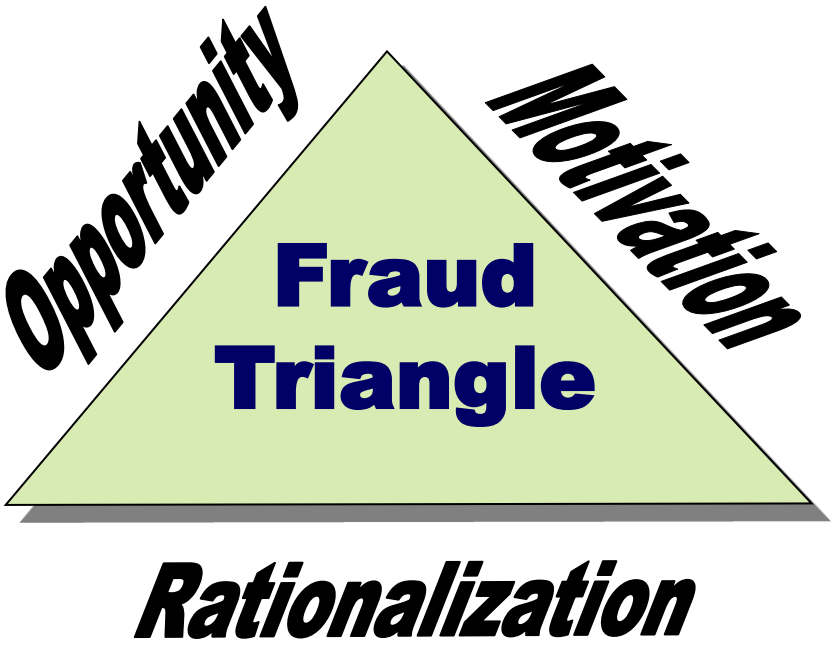
- Under the Inspector General Act of 1978, as amended, OIG can access any records available to the Department of Education in order to perform audits, investigations and inspections of Department programs and operations.

- The Family Educational Rights and Privacy Act **(FERPA)** requires schools receiving funding from the Department of Education to protect the privacy of student education records. In many cases consent must be received from a parent or student before records can be disclosed.

- **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.

FERPA regulations can be found at 34 CFR Part 99
http://www2.ed.gov/policy/gen/guid/fpco/index.html

- 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.

Fraud Indicators

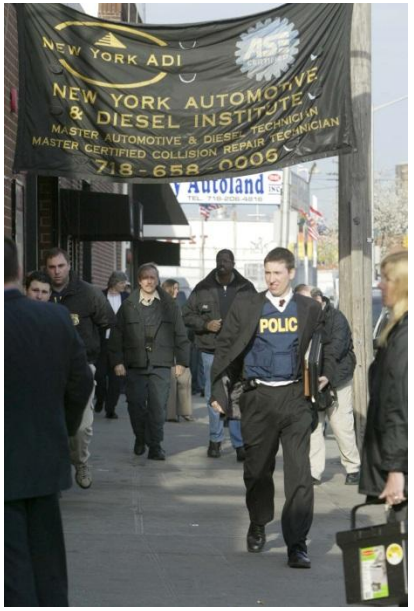
- ✓ One person in control
- ✓ No separation of duties
- ✓ Lack of internal controls/ignoring controls
- ✓ No prior audits
- ✓ High turnover of personnel
- ✓ Unexplained entries in records
- ✓ Unusually large amounts of payments for cash
- ✓ Inadequate or missing documentation
- ✓ Altered records
- ✓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

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



Examples of Criminal Investigations

Example of Criminal Investigation

Click on Photo for Video

Example of Criminal Investigation

- President of Galiano Career Academy, Michael Gagliano used a "diploma mill" owned by his wife, to make students eligible for student assistance programs.

- The Department of Education conducted a program review at Galiano Career Academy in 2009, and when reviewers saw suspicious activity, a criminal investigation was launched. OIG Special Agents later learned Michael Gagliano installed cameras and microphones prior to the Department of Education's visit so he could hear their conversations.

Example of Criminal Investigation

Former President of Galiano Career Academy Sentenced for Theft of Federal Funds, Obstruction of a Federal Audit, and Aggravated Identity Theft

- On February 25, 2014, in Orlando, FL, U.S. District Judge Roy B. Dalton sentenced Michael Gagliano (50, Sanford) to four years in federal prison for theft of government property, obstruction of a federal audit, and aggravated identity theft. As part of his sentence, the court also ordered restitution and entered a money judgment in the amount of $2,105,761.00, the proceeds of the charged criminal conduct. Gagliano pleaded guilty on August 16, 2013.

Example of Criminal Investigation

"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 were convicted of terrorism charges and some for using their federal financial 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 ED/OIG.

Criminal Penalties

Education Fraud

Title 20 U.S.C. § 1097 (a)

- 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 subchapter and part C of subchapter I of chapter 34 of Title 42, or attempts to embezzle,….

- Persons convicted of a felony shall be fined not more than $20,000 or imprisoned for not more than 5 years, or both.

- Attempt is defined as, “an undertaking to do an act that entails more than mere preparation but does not result in the successful completion of the act.”

Other Criminal Statutes Used in Connection with OIG cases:

18 USC § 371 CONSPIRACY

18 USC § 1001 FALSE STATEMENTS

18 USC § 1341 MAIL FRAUD

18 USC § 1343 WIRE FRAUD

18 USC § 1344 BANK FRAUD

18 USC § 641 THEFT OF GOVERNMENT FUNDS

18 USC § 666 THEFT CONCERNING FEDERAL PROGRAMS

18 USC § 1030 COMPUTER FRAUD/EXCEEDING ACCESS

Civil False Claims Act

31 U.S.C. § 3729

- Knowingly presents, *or causes to be presented*, to the United States Government a false or fraudulent claim for payment or approval (*no proof of specific intent to defraud is required.)*
- …or makes, uses, *or causes to be made or used*, a false record or statement to get a false or fraudulent claim paid or to conceal, avoid, or decrease an obligation to the Government.
- Burden of Proof – "Preponderance of the Evidence" *(More likely than not).*
- *Specific Intent* to Defraud the Government <u>not</u> an Element.
- Liable for Civil Penalties of between $5.5K and $11K per count **plus** 3 times the amount of actual damages.

Example of Civil Investigation

Landmark $95 Million Civil Settlement reached with Education Management Corp. (EDMC).

In 2015, a press conference was held by U.S. Attorney General Loretta Lynch to announce that a global civil settlement had been reached with EDMC for $95.5 million. The settlement was related to allegations of violations of the Incentive Compensation Ban and consumer-fraud allegations involving deceptive and misleading recruiting practices.

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

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)).

Criminal Liability

- 18 U.S.C. § 2, Aiding and Abetting

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

- 18 U.S.C. § 4, Misprision of a Felony

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

How You Can Help

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

How To Report Fraud

Inspector General's Hotline:

- **1-800-MIS-USED**
- **http://oighotline.ed.gov**

Mid-Atlantic Region Contacts:

- **Special Agent in Charge Geoff Wood**
  215-656-8693
- **Assistant Special Agent in Charge Andrew Balceniuk**
  215-656-8570 (DE, western NY, PA, WV)
- **Assistant Special Agent in Charge Erik Wolfson**
  202-245-6917 (DC, MD, VA, WV)

OIG Investigation Services Contacts

City/State	Telephone No.
Ann Arbor, MI	(312) 730-1630
Atlanta, GA	(404) 974-9430
Boston, MA	(617) 289-0174
Chicago, IL	(312) 730-1630
Dallas, TX	(214) 661-9530
Denver, CO	(303) 844-0058
Kansas City, MO	(816) 268-0530
Long Beach, CA	(562) 980-4141

OIG Investigation Services Contacts (continued)

City/State	Telephone No.
Nashville, TN	(615) 902-7327
New York, NY	(646) 428-3861
Pembroke Pines, FL	(404) 974-9430
Philadelphia, PA	(215) 656-6900
Phoenix, AZ	(562) 980-4141
Pittsburgh, PA	(215) 656-6900
San Juan, PR	(787) 766-6278
Washington, DC	(202) 245-6918

QUESTIONS?

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