

# Pell Grant and Direct Student Loan Fraud

Using Biometric Signature ID to reduce exposure through authentication and identity management

By: Dr. Mark Sarver, Chief Behaviorist, Biometric Signature ID and Former CEO of EDUKAN



# Case Study

## Background

Note: This is a use case report from Biometric Signature ID (BSI) comprised of best practices from our clients who are using BioSig-ID, the world's first biometric password. The identity and specific practices of our clients is intentionally anonymous so persons committing the fraud are not informed of the specifics of any one institution's strategies and practices to combat Pell and Direct Student Aid fraud.

While initially implemented as an academic integrity strategy ensuring institutions can verify and authenticate online students, the serendipitous discovery of the successful deterrent to Pell fraud has expanded the application of BioSig-ID beyond the focus of academic integrity. It is a powerful tool deterring and identifying fraudulent activities intended to defraud the institution and taxpayers of federal student aid funds. Biometric Signature ID is a leader in the Identity and Access as a Service (IDaaS) market.

## The Problem

The Department of Education provides more than \$150 billion dollars each year to over 15 million students paying for college at more than the 6,000 participating Title IV schools. The Wall Street Journal reported that the U.S. Department of Education overpaid Pell grant recipients by \$2.03 billion in fiscal year 2016 and improperly disbursed more than \$3.86 billion in direct student loan funds, an error rate of nearly 4%.

In broad terms consider the following formula in your school. Take the total amount of FSA dispersed under Pell Grants multiply by 4% = what you are spending most likely in fraudulent federal student aid funds. Multiply the number of students by 4% and this is the number of students you need to find who are costing you the money.

*At cheaper institutions, especially community colleges and technical colleges, Pell runners can rake in as much as 12% of grant money for themselves. It's even easier to commit fraud at online schools—the Education Department was investigating more than 100 scams involving online education in 2011, as compared to 16 in 2005.*

David Randall,  
Director of  
Communications,  
National  
Association of  
Scholars



Then find a solution like BioSig-ID to help you identify these students and save paying them (the \$1M) their balance of grant money after census day. Example school gives out \$25M in FSA to 9,000 students x 4% = \$1M = savings providing you can find the students and cut off paying them. Number of students =  $9,000 \times 4\% = 360$ . Find them and save your self \$1M!

Additionally, the Office of Inspector General (OIG) for the Department of Education released a Final Audit Report in February 2014 addressing “Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That are Unique to the Distance Education Environment”. In this report, the OIG selected two institutions from each of four categories of schools: 4-year public, 2-year public, private nonprofit, and proprietary. The findings of the audit were shocking: these eight selected schools distributed more than \$220 million in federal student aid to approximately 43,000 students who did not earn a single credit during the audit period.

In February 2017, the Internal Revenue Service (IRS) reported that more than 700,000 taxpayers’ information may have been stolen by computer hackers. This was closely followed by an announcement that the Department of Education was shutting down the Data Retrieval Tool (DRT) as a result of another breach that lead to over 120,000 taxpayer’s data being compromised. The DRT was a free service that allowed students and parents to access and populate the necessary tax information needed to complete the Free Application for Federal Student Aid (FASFA).

## Types of fraud

In the most simplistic form, individuals obtain federal student aid funds more than the cost of tuition and the institution returns the credit balance in the form of a payment to the student. Legitimate students use these excess funds to pay for the indirect costs associated with attending college. Fraudulent actors capitalize on these “free” funds.

Individual student – It is not uncommon for a student to drop classes due to external factors and situations. If the Pell funds have already been dispersed, the student may simply keep the funds. While this in itself is not fraudulent behavior, if the student realizes the opportunity to collect “free money” they may intentionally continue to enroll in classes with the intention of dropping out.

Organized Fraud Ring – This intentional act designed to systematically defraud the government of funds can be broken down into two types of fraud rings:



- Active participants – The ringleader recruits individuals to participate in the fraud by providing their social security number and personal information. These participants are often referred to as “Straw Students.” In return, the participants receive a percentage of the disbursed funds. Because Pell funds do not need to be repaid, this becomes “free money” without an associated liability of repayment.
- Unsuspecting victims – The fake student obtains the necessary information to complete the financial aid process, including requesting direct student loans above the Pell amount. The fake student then drops the classes and retains the money. Often the victim does not know that loans were taken out in their name until years later.

Unscrupulous institutions – Institutions and/or employees of the institution conspire with students to obtain excess funds and then share those payments with the student. Even more blatant, the Detroit Free Press reported in March 2016 that the Michigan Jewish Institute committed fraud over the past decade by collecting funds for students who weren’t enrolled. The DoE outlined more than 2,000 cases against the school where Pell Grant funds were sent to the school to pay for students studying in Israel who never took a single class at MJJ.

## How Biometric Signature Can Deter Fraudulent Behavior

The Department of Education has outlined the following requirements for institutions to be eligible to participate in the Title IV program. They have also identified, in the list below, the challenges for institutions providing online courses to comply. Below each requirement, a summary of how products from Biometric Signature ID can deter fraud is identified in *italic script*.

As of August 1, 2011 the  
OIG had opened 100  
investigations into fraud  
rings and these  
investigations currently  
constitute about 17  
percent of all open OIG  
investigations.

Source: OIG

A school must do the following to comply with Title IV requirements that present unique challenges for schools offering distance education:



1. **require selected applicants to verify their identity as part of the student aid verification process** (Dear Colleague Letter GEN-12-11, July 17, 2012);

*BioSig ID requires applicants to enter a unique password they draw. The biometrics of this password are as unique as a fingerprint. Additionally, the system captures IP (Internet Protocol) addresses and internet service providers of the person entering the password. Integration of BioSig ID into the student information system via Learning Tools Integration (LTI) become the first line of defense in deterring fraud in two distinct ways. The system itself is a deterrent to bad actors as it creates an uncertainty as to the use of the password and this barrier is often enough to persuade the bad actor to search for an institution that has less security in place. Second, if the bad actor should proceed forward, the system has significant forensic data to identify fraud rings. Adding BioProof ID, a live agent ensures the person establishing a profile in the system is the appropriate person.*

2. **establish a process, acceptable to its accrediting agency, to verify that the person who registers in a distance education course or program is the same person who participates in and completes the course or program and receives the academic credit** (34 C.F.R. § 602.17(g));

*BioSig ID is incorporated into the learning management system and the institution can authenticate students throughout the course. This is far superior to simply having a faculty member verify that the student is active in the course. Making the BioSig ID enrollment process and verification a requirement as part of the certification process before financial aid funds are disbursed virtually eliminates the ability for fraud rings to exist.*

3. **determine the withdrawal date for a student who withdraws from the school** (34 C.F.R. § 668.22(b) and (c));

*BioSig ID's Academic Attendance Report provides a visual review of student activity in the course as they authenticate at different points and times.*



4. **ensure that, when determining a withdrawal date or whether a student has begun attendance, it adheres to the definition of academic attendance and attendance at an academically related activity** (34 C.F.R. § 668.22(l)(7), effective July 1, 2011; 34 C.F.R. § 668.21);  
*BioSig ID's Academic Attendance Report provides a visual review of student activity in the course as they authenticate at different points and times.*
5. **resolve Institutional Student Information Record (ISIR) codes flagging students with unusual enrollment histories** in accordance with Dear Colleague Letter GEN-13-09 (March 8, 2013); and  
*Biometric Signature ID can flag known IP addresses from previous attempts by ringleaders. This is particularly beneficial, as fraud rings tend to repeat their activities at multiple institutions. If both institutions are clients, the system can flag the student as potentially fraudulent, allowing the institution to investigate further.*
6. **develop and follow procedures to evaluate the validity of a student's high school completion if the school or the Secretary has reason to believe that the high school diploma is not valid or was not obtained from an entity that provides secondary education** (34 C.F.R. § 668.16(p), effective July 1, 2011).  
*Biometric Signature ID does not currently have a use application for this requirement.*

In addition, **the Department specified by regulation that evidence of a student logging in to an online class is not sufficient evidence by itself to demonstrate academic attendance by the student** (34 C.F.R. § 668.22(l)(7)(i)(B)(3), effective July 1, 2011; 75 Federal Register 66898- 66899, October 29, 2010).

*BioSig ID is incorporated into the learning management system and the institution can authenticate students throughout the course. While the institution determines the events that will require the student to authenticate, it appears as a random request from the student perspective. Because they do not know when or how the authentication will occur, it becomes a deterrent to a fraud ringleader, who must then remember which drawn password is associated with which student profile and be able to replicate the password with accuracy. This is virtually impossible. Additionally, if the ringleader uses the same password for each student, the system will flag the students for investigation*



# Unexpected Consequences of Pell Fraud

Imagine that your school becomes a victim of the latest Pell Grant fraud ring. In 2016 alone, improper Pell grant payments accounted for more than 4% of the total Financial Student Aid (FSA) Fraud and topped out at \$2.2 billion. ***Can your institution afford the wherewithal to deal with the fall out after the money's gone?***

One school in particular (*information on file*) handed out more than 9 million dollars to fictitious students. The money had to be paid back to the federal government leading to budget cuts, loss of benefits, reduction of classes, the inability to hire much needed teaching positions and a huge blow to the institution's reputation.

- Students can't get into classes – Depending on the size of the fraud ring, legitimate students cannot get into the classes they need because the seats are filled with “straw students” who drop after funds are disbursed.
- Lowers retention – After the fraudulent students drop from the classes, there is a direct impact on the institution's retention rates.
- Exposes the institution financially – If the Department of Education determines the institution did not actively deter or identify fraud ring participants, they can be financially responsible for repaying the fraudulently disbursed funds.
- Possible government changes in funding models – One of the proposed remedies to combatting the challenges of Pell fraud is to lower the amount of money available to online students. This proposal aims to deter fraud rings because it would eliminate excess funds available to the student. However, this would have a detrimental impact on legitimate students who rely on those funds to support their attendance.
- Increased accountability for higher education institutions – The Department of Education continues to pressure agencies responsible for accrediting colleges to do more to ensure compliance with efforts to subvert financial aid fraud. There is natural pushback from the accreditors who view their responsibility as ensuring quality programs, not policing Title IV compliance.

*The first semester we added the requirement for a student to authenticate using BioSig before disbursing funds we caught a Pell fraud ring where one person was logging in as 12 fake students. Without BioSig we probably would have not caught them until it was too late. BioSig-ID paid for itself in that one instance alone.*

CEO, Consortium



*BioSig-ID incorporates next-level technology that can identify financial aid fraud rings in real-time. Our backend reporting is able to identify non-active students and see suspicious activity instantaneously.*

***BioSig-ID puts the power back in to the hands of our clients and ensures that they do not disburse financial aid to fictitious students or Pell runners.***

– Jeff Maynard, President / CEO, Biometric Signature ID

*Again, the message must be that we cannot tolerate even the most limited instances of fraud. Student aid comes from taxpayers who deserve effective management of their investment. A limited number of unethical individuals must not undermine educational opportunity for millions of other students.*

– American Association of Community Colleges – Baime & Mullin

<https://www2.ed.gov/about/offices/list/oig/invtreports/l42l0001.pdf>

Jesse, D. Detroit Free Press

<http://www.freep.com/story/news/local/michigan/2016/03/23/feds-accuse-michigan-jewish-institute-pell-grant-fraud/82154520/>

Randall, D. March 24, 2017

[https://www.nas.org/articles/representative\\_grothman\\_addresses\\_pell\\_grant\\_fraud](https://www.nas.org/articles/representative_grothman_addresses_pell_grant_fraud)

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