

Nearly two dozen people face charges related to a widespread financial aid scam in which they received money to attend ABC College but never went to class. About 20 of those phony students received As, Bs, or Cs in drama classes in which they apparently never set foot, triggering an internal investigation at the college district centering on the drama department.

The scheme, known as a “Pell runner” scam, has plagued colleges across the country, with the abuse of financial aid money costing taxpayers untold millions. Per the prosecutor: “The scam is easy to commit: you just have to lie on your application that you are broke, get a check and after you get a check you withdraw from the classes. It’s very hard to catch because the record keeping is lax.”

The elaborate fraud ringleader ran the scheme like a business, using fliers and contracts to recruit people for their scam. The leader would obtain personal information from the recruits and use it to enroll them in college classes and apply for financial aid. The leader would take a 25% slice of the take. Approximately \$675 of the \$2,775 a student on financial aid receives per semester.

The fraud was uncovered after one student came forward. Investigators, including the FBI and the Department of Education, realized all 22 people involved were sharing the same two addresses belonging to the ringleader.

The investigation found that the drama instructors did nothing criminal but raised questions about grading in the department. The instructor in question resigned but was able to keep his retirement benefits.

- What controls could ABC College have implemented to realize that these payments are not valid?
- What ongoing concerns are there relating to granting of grades to students that never attended class?

Prosecutors have charged 34 current and former students with felony fraud and conspiracy in the cash-for-grades scheme at XYZ College. The ringleader was charged with 23 felonies and could be sentenced to nearly 70 years in prison if convicted.

College registrars nationwide have discussed what could be far-ranging implications of the grade changes. Several registrars have said they would expel students or rescind any degrees given to XYZ College alumni who transferred to their schools.

District leaders acted quickly to fix the problems that had enabled student employees to accept money for the grade changes. School administrators limited access to academic records since the plot was uncovered. When administrators were first tipped off to the scandal the college was reeling from chronically declining enrollment, morale problems stemming from district wide pay cuts and major financial uncertainty.

The ringleaders took in thousands of dollars and had a constant flow of customers. Students met with ringleaders in malls, gyms, and supermarkets, handing over hundreds of dollars in plain white envelopes. Investigators found unauthorized grade changes dating back to 2000 (approximate 7 year period).

The long-running plot was fostered by the college's wide open grade management system. Nearly 90 people, including student employees, were authorized to change grades at XYZ College.

- What controls could XYZ College have had in place to prevent the changing of grades?
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The man accused of stealing \$336,000 from Misery College over several years appeared in court Thursday. The former lead purchasing agent for Misery College pleaded not guilty to felony charges of four counts of theft by false pretenses. Each count carries an enhancement because of the amount of money in question.

Prosecutors say the accused used a fake janitorial company to charge Misery College for services that never took place over a seven year period. As the lead purchasing agent, the accused was in charge of dealing with vendors and purchasing supplies for the campus.

The accused starting working for the college as a receiving clerk in March 2006 and became the lead buyer in June 2010 (fraud was occurring before the accused was the lead buyer). The accused faces a maximum of six years in state prison.

Officials at Misery College have said in recent months that they changed the auditing processes at the school to ensure that more than one person must sign off on every purchase. The college's insurance has covered all but \$500 of the theft. The college also hired an outside forensic auditor to look at its purchasing and auditing practices.

- What controls were lacking to allow this individual to make \$336,000 in false purchases?
- What IT controls can be added to make sure employees do not set up phony vendors?

The CCCCO was concerned that Cactus College incorrectly reported FTES for the fiscal years ending 2004 through 2010, a seven-year period, after receiving numerous tips about attendance reporting irregularities.

The college employed senior administrators who were knowledgeable and familiar with the rules, methods, and proper determination of FTES. The college also retained a consulting firm that specialized in attendance reporting and helped the college convert the attendance data from the previous legacy system to a new reporting system purchased by the college in December 2001 for a 2003-04 targeted implementation date.

In March 2004, district personnel made a final decision to use catalog hours instead of scheduled or actual hours. The methodology of using catalog hours instead of scheduled/actual hours has a high likelihood of overstating hours and the calculation of FTES. Two VPs were present at this meeting and the decision was shared with numerous employees. Evidence reviewed by FCMAT indicates that the senior management team had significant and extensive knowledge of the FTES miscalculation as early as 2004.

A new president was appointed in 2005-06 and he retained an independent consulting firm to assist with the FTES calculations because he had concerns about the potential problems with the data from some district staff members.

College presidents signed annual apportionment certification reports CCFS-320 for each year from 2004 through 2011 certifying that the information was true and correct. The senior consultant that prepared the reports admitted that he was aware of the misreporting and notified the president on many occasions that student contact hours reported on the CCFS-320 were incorrect. Yet, the consultant continued to prepare incorrect reports and the president continued to certify them. The reports contained variances between 2% - 4% from 2005-06 through 2009-10.

An independent audit firm was retained to verify and correct the FTES calculations for 2004-2012. The report showed that apportionment had been overpaid by \$5,261,544 over the eight year period.

- What type of occupational fraud was occurring?
- What effective internal controls should have been in place to eliminate the fraudulent reporting?

## ANSWER SHEET

### Case Study #1

- Address verification report through IT could have noted that similar address is being used 22 times.
- FTES was claimed for students that never attended. CCC rules require that roles to be cleared of any students not attending.

### Case Study #2

- IT access for students should be limited to read only screens.
- Grade changing access should be limited to very few individuals in A&R

### Case Study #3

- Second level approvals of purchases
- Check addresses to make sure vendor/employee addresses are not the same

### Case Study #4

- Fraudulent statements
- Tone at the top; establishment of effective fraud communication