

FRAUD TALK – EPISODE 98

Corruption on Campus

While the celebrity college admissions scandal made the largest headlines, there are many other types of fraud that affect colleges and universities. In this episode of Fraud Talk, ACFE Research Specialist Julia Johnson, CFE, explains different fraud schemes in higher education and how to prevent them from occurring.

Transcript

Sarah: Hello, and welcome to Fraud Talk, the ACFE's monthly podcast. I'm Sarah Hofmann, the public information officer for the ACFE. Today, I'm joined by Julia Johnson, a research specialist here at the ACFE. Thanks for joining us, Julia.

Julia: Thanks for having me.

Sarah: You've been doing a lot of research into fraud in higher education. I feel like that idea got a lot of attention in the past year, thanks to that college admission scandal that had the celebrities going to jail and stuff. There's a lot more to fraud in higher ed than just admissions fraud. Can you talk about some of the common fraud schemes that you might see in universities and colleges?

Julia: Yeah, definitely. Obviously, the Hollywood admission scandal was a big thing to rock this whole topic of fraud. Everyone's really interested in it, especially with the high-profile individuals that were caught up, but after doing some research and really building this course on the topic, I realized that there was so many more areas of higher education that have specific fraud risks that some people might not even realize. Colleges, if you think about it, really operate kind of like a small city. They have all these different departments. They're just small little organizations each. With that, they each have their own unique fraud risks.

Obviously, with the amount of money coming in with federal grant money for research, and then financial aid for students and things like that, there's a lot of money coming into these schools and probably not as much oversight over that money as there should be. One of the main areas of higher education fraud is academic fraud, which involves students cheating or plagiarizing work of other individuals. This is especially becoming prevalent with the emergence of online courses. A lot of college courses are now either partially or fully online, which is obviously very... It's nice because it's able to reach a wider audience of students and some people who might not be able to come into class every day.

I think it really offers great benefits, but with that comes a higher ability for students to cheat on different things. One of the cases that I discovered while doing this research was... A few years back, the University of North Carolina at Chapel Hill had a huge scandal that involved some tutors that were doing work for student athletes. Under certain regulations for students to remain eligible to play in their college sports, they need to maintain certain GPAs and have certain passing grades in their courses. Obviously, they're practicing long hours and things of that nature, so, might not have as much time to get their schoolwork done. Tutors at this school were doing pretty much the entire bulk of the coursework for students.

Sarah: Sports, I feel like in colleges, you're talking about how there's so much money in universities and yes, some of it comes from the government and tuition keeps going up and up and up each year as everyone knows, from increasing student loans. But sports, I feel like, does bring in so much, they often credit those sports programs for getting extra alumni donations, for bringing fans, even stadium concessions and what they can charge for tickets and stuff. I can see why the area of sports and specifically collegiate sports is just a ripe area for people to take advantage of stealing money in some way, shape or form through those programs.

Julia: Yeah, I definitely agree with that. For a lot of schools, especially big schools down in the South, their athletic programs are some of the biggest revenue generators for these schools. Then, the discussion comes into play about these students that are not paid, that generate all this revenue for these schools. There's a lot of payments that go on, like hush-hush payments that are made by coaches or companies that sponsor teams. Adidas just got into trouble for offering payments to try to get a certain high school student to go to a certain college that they sponsored. I know that there's discussion about possibly allowing student athletes to be paid for their athletic ability in college, but as of right now, I think that California might have just passed something that said they can.

Sarah: I feel like, yeah, that just happened in the last legislative session or something to say, not necessarily for them to get paid for their performance, but that they could make money...for instance, if they want to autograph something and sell that, that they would be able to profit or get that profit. I think the schools are making so much money off of the athletes. In my personal opinion, I think that I'm glad that we're starting to address that issue and see... And I think that when organizations and universities do address that issue and take a look at it, I think, at least — and you could correct me if I'm wrong — I feel like that removes some of the opportunity then for fraud to happen there because you're giving a little bit more control. It takes away some of the rationalization.

Julia: Yeah, I would definitely agree with that. I think that this is going to be a discussion that they're having in the future. I think we're going to be seeing more of that open-discussion-type thing, and I agree that if these students are at least compensated a little bit for their efforts. They're practicing...I think NCAA rules only allow them to practice 20 hours a week, but that's still quite a bit. A lot of these students don't have the time to keep up with their sport, study for classes and hold a job like many other college students. I definitely think it would decrease some of the fraud that's at least as occurring in that department of colleges.

Sarah: You mentioned before also, money coming in from government grants and stuff like that. What are some of the fraud schemes or cases that you've seen in that arena?

Julia: I would say the biggest things that happens in...well, it's twofold. The federal government can provide grants to schools to conduct research, or they can provide financial aid. First, I'll go over the grants that schools can get.

Schools can apply for federal research grants, which is ultimately free money from the federal government that is intended for a specific purpose. These teams of researchers at schools will write a proposal and send it in to the government. If they believe that this research could benefit the country as a whole, we usually give them a certain amount of money to conduct this specific research. A lot of what we're seeing with that is just the misuse of research funds. The funds aren't being used for the specific purpose that they were given to the school for.

Or I know there's issues with researchers using university property to conduct their own personal research that they can then sell for a profit. It gets sticky as you get into that. Then, a case that I found about this that was pretty interesting was, a professor, he was actually the former chairman of the engineering department at Drexel University in Philadelphia. Drexel was given \$190,000 of federal

research funds to conduct cancer research. This professor used these funds to purchase iTunes gift cards, spend money at strip clubs and sports bars in the area.

This was all discovered during an internal audit that included the engineering department. They uncovered these unauthorized purchases that the professor tried to get reimbursed through using the federal grant money. He was just charged with theft by unlawful taking and theft by deception. I'm pretty sure the prosecution on that is still ongoing.

Sarah: I wonder how he thought he could get away with that. What receipts from strip clubs is he turning in to be like, "Oh, I need to be...this was part of research for cancer studies."

Julia: I think he tried to play it off like it was catering or something for some research event. They got to the bottom of that pretty quickly and realized that what he was doing with the money was not its intended purpose at all. Then, on the other coin with the federal money that's coming in, financial aid fraud is a huge area of concern for higher education institutions. Tuition is going up at a steady pace, and I think they said that if it continues to go up at this rate, which is higher than the rate of inflation, the cost of attending college will double every nine years, which is mind-blowing to me.

As these prices go up and more careers demand degrees from higher education institutions, more people are going to commit fraud to be able to further their educational goals. One of the main ways that this is done is by families misrepresenting their financial position when applying for federal aid, which is done using the FAFSA form. I'm sure some people are familiar with that. Some parents will misrepresent their income or assets to make it appear that they're less fortunate and in turn, qualify for more money from the federal government. That's still an area that they're having a lot of issues with.

Sarah: Yeah, I think I saw some story, maybe about a year ago or something, that they caught...there was like a spike in the number of high school students becoming emancipated from their parents in this one area, like in the suburbs of Chicago, and they realized that it was so that they could get more FAFSA. Like, their parents...I guess their income was just high enough that they wouldn't qualify for any but it still was so much that the parents couldn't comfortably actually pay for all of it. There was, I think, a couple of law firms that specialized in putting in all the paperwork, getting the kids emancipated so that then they could qualify for a lot more financial aid. It's just crazy. I mean, I think it's crazy that it's come to that. And also with financial aid, I saw a story about someone from Howard University stealing a ton of money from the financial aid itself.

Julia: Yes, that was a pretty crazy story that took a few interesting turns. So yeah, at Howard University in Washington, DC, there was a big theft of financial aid funds, which in the ballpark of a million dollars, and this was discovered during a routine review of the financial aid office. The president did this, and he alerted the board of trustees who began an internal investigation into it just because there was just some discrepancies going on with funds that were coming out of that department. Over the course of the investigation, they discovered that over 10 years, some university grants were given to students who are already receiving tuition reimbursement for working in the financial aid office.

The funds that they were getting in grants and the funds that they were getting in tuition reimbursement actually exceeded the cost of attendance at these schools. They were making a profit off of the difference. Six employees were terminated in this office. It's also interesting because there was a student who was working in the financial aid office and was flashing all of his stuff on Instagram, like his Range Rover and high-end fashion and these lavish trips that he would take, and he was working in the financial aid office during the time that this fraud was occurring. They were never able to pinpoint whether or not he was involved in the crime.

Then he sued the school for \$10 million because he said that his privacy was compromised during the investigation, which I believe that lawsuit was dropped but things definitely didn't look good for the school

after that. They were actually placed on a cash monitoring program from the U.S. Department of Education that forced them to cover students' tuition themselves and put the money upfront themselves versus getting it from the Department of Education. They've since been taken off that cash monitoring because they complied with the requirements of their agreement with them involving this fraud, but definitely something to keep an eye on.

Sarah: Yeah, that's, I mean, a million dollars is a ton. I feel like there's also the human element of, even though technically it's defrauding the government because so many students need financial aid, and they really depend on that, I feel like doing anything to make that process harder for students to get, or casting any suspicion on it is just, it's going to end up down the line hurting students that really need it. That's just very, very sad.

Julia: Yeah. I think the worst part about these types of schemes and stuff are the students that these funds are actually intended for and who could actually benefit...the true people who could benefit from this that are in the end not receiving this money because of people committing fraud and taking it when they shouldn't be. I just feel bad for those students that are actually deserving of it and need it to further their education. By the time it gets to them, there's just none left.

Sarah: Like a student that might actually deserve a spot in USC but because no one lied and said that they were like an Olympic Rower they didn't get that spot.

Julia: Exactly. Yeah.

Sarah: Well, we've talked about a bunch of different types of cases. I know that because they're also varied. Like there's some in sports, and there's some that it's defrauding the government and there's some with admissions or academics. It's hard to make any sort of, "Oh, these are the steps that people should take to prevent this." But can you give any? Has your research shown any steps that universities or colleges might put in place for these different types to prevent this fraud from happening?

Julia: Yeah, it's definitely a difficult issue to tackle because of all the different areas, like you said. I think, first and foremost, it's going to take a joint effort from the government, from the personnel of these higher education institutions, and the students as well, just to be aware that fraud can and has been occurring in higher education and to just keep an eye out. If they see something, say something. Either through the school, if you suspect something is going on, and you feel comfortable reporting it to someone higher up in there, but also the Department of Education has a hotline through the Inspector General, and they handle all fraud in higher education.

Whether you're a student or a faculty or even just an outsider and you think that something's going on, you can always call and leave a tip. I think just raising awareness about that is important. I also think that just better due diligence in these different departments could also help. For example, in the admissions process, if some students may falsify their credentials or their transcripts or things like that, it's really on the admissions counselors to do a thorough job in verifying students' claims, whether, say, they got like a 30. I think 36 is the highest for the ACT, like verifying that those are true scores.

In their essays, if they claim that they have played sports, and they're coming in on a sports scholarship, just give a call to their high school and ask, "Hey, does the student actually play a sport here?" Just really simple things, but that could prevent bigger things from occurring.

I also think that colleges and universities should conduct fraud risk assessments, which will help them proactively identify and address certain fraud risks that they're susceptible to in each of their various departments. Maybe establishing oversight boards in different departments of people that may be independent of the department where they can review policies and procedures and how things are

handled just to make sure that there are proper controls and certain people aren't given too much power where they can take a bunch of money and then get away with it without being detected.

Sarah: Yeah, that makes sense. Because talking about...I see why it would be so pivotal to do the fraud risk assessment because the chemistry department is going to have potentially...they have a higher fraud risk, I'd say, for grants, grant fraud and stuff like that, versus the English department might not really be receiving...I feel like the government doesn't give as many grants for different — I could be wrong — but I feel like specifically in the STEM fields, they're the ones getting a lot of those research grants. That's a much higher risk area, but the English department might be more at risk for, I don't know, different types of embezzlement or plagiarism or things of that nature.

Julia: Yeah, I definitely would agree with that. I think each department and everyone within that department should all identify their specific fraud risks because there's not a “one size fits all” type of solution to this problem. I think it's going to take some creativity and just really looking at, Hey, how do our processes work? How could somebody get in here and commit fraud?

Sarah: I heard in one of the sessions at one of our past annual conferences, someone talking...It was a session on fraud risk assessment, and they were saying one of the most important questions that they ask when they start one is they gather just a few people and say like, “Okay, if you were going to commit fraud, how would you do it? Truly try and think through it. Don't just say, ‘Oh, I wouldn't,’ but think through it. If you wanted to steal money, or do something dishonest, commit some fraud, how would you go about doing it that you thought you couldn't get caught?” And really have them work through that process and be like, “Okay, well, the fact that you definitely think that you could do it using X, Y and Z, then let's take a look now at X, Y and Z and how can we tighten those up?”

Julia: I would agree with that. Yeah, if anything, the Hollywood admissions scandal has raised awareness on this topic that has been going on for quite some time. I think now is as good a time as ever to really take a step back and look at these different things and figure out how these systems could be defrauded and the different methods that people can use because people are creative, especially when trying to commit criminal acts.

I think, yeah, just taking a step back and really looking at the specifics and how they all connect with the big picture, I think, is just important, and it's not ever going to be fully eliminated...I don't think, fraud in higher education, but I think if schools take a look at this and figure out, “Hey, how are we susceptible to fraud?” I think it will definitely cut down a lot of fraud that may be occurring in the future.

Sarah: Well, this is super interesting. I feel like higher ed fraud, especially, maybe just because of the human element or something, but it always feels a little bit salacious to talk about. It's just extra fun, or not *fun*. Fraud is never fun. It's interesting to look at all the different ways that it happens. Thank you so much for sharing all this information with us today.

Julia: Yeah, you're welcome.

Sarah: Thank you for listening. You can find this and all other episodes of fraud talk on iTunes, Spotify and anywhere you get your podcasts. This has been Sarah Hoffman, signing off.