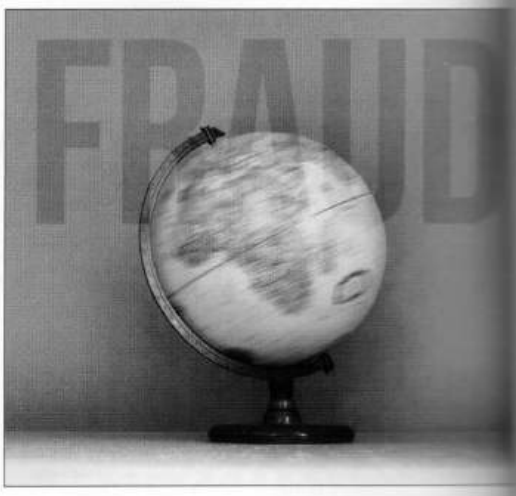
Fraud in education, part 2

Criminal profiles and red flags



The National Institute of Justice (NIJ) scoured its vast body of research and found that the best way to deter crime is to increase the certainty of being caught. Fraud examiners are skilled in the prevention and detection of fraud and white-collar crime across most industries. (See "Five Things About Deterrence," National Institute of Justice, tinyurl.com/ydcsxxfb.)

However, unlike the bank, retail, health care and insurance sectors, discovery of fraud in education is still evolving. School reform, growth of for-profit universities, expansion of distance learning programs, restriction of student loan debt forgiveness and school vouchers represent just a few challenges impacting the landscape.

In the September/October 2017 issue of *Fraud Magazine* I discussed the impact of educational fraud on national security. Part two takes a deeper dive into those directly involved, from perpetrator to victim.

Investment in education

U.S. taxpayers invest $606.5 billion for public elementary and secondary education annually, according to the 2013 National Center for Education Statistics. (See "Financing education: National, state and local funding and spending for public schools in 2013," tinyurl.com/mvq8hbc.) At the same time, venture capitalists infuse $2 billion into the education economy each year and anticipate significant investment gains according to Mark Koba, in his April 28, 2015, *Fortune* article, "Education tech funding soars — but is it working in the classroom?" (See tinyurl.com/mgeklnq.)

These funds enable more than 100,000 public schools and 7,200 colleges to educate 75.2 million students and employ more than 4.6 million faculty and 5.3 million administrators and staff according to The National Center for Education Statistics' "Digest of Education Statistics," 2015 (NCES 2016-014), Chapter 2, tinyurl.com/zort7df.

As fraud fighters on the front lines, how can we increase the risk of detection? Let's start with a criminal profile.

Add 3.4 million faculty, staff and administrators employed in private educational institutions, and we have roughly 13.3 million education-sector employees.

Employment in the education sector

How does the sheer volume of people employed in the education sector compare to other industries? According to the 2014 Bureau of Labor Statistics, 80 percent of all jobs in the U.S. are in the service industry. Within this sector (excluding state, local and federal government), the top four job producing subsectors are professional and business services (19 million), health care and social assistance (18 million), retail trade (15 million) and leisure and hospitality (14 million).

The number of employees in the educator sector tops 13.3 million. This is 1.66 times larger than those employed in financial activities (eight million) and 6.65 times greater than those working in information services (two million). (See Bureau of Labor Statistics, Table 2.1, "Employment by Major Industry Sector," Dec. 8, 2015, tinyurl.com/ybgw4772.)

Potential for fraud in education

The ACFE, in its 2016 *Report to the Nations on Occupational Fraud and Abuse* (ACFE.com/RTTN), ranked the education sector as fifth in its top 10 list of reported fraud cases in 2014 and sixth in 2016 — at 5.9 percent and 6 percent respectively.

The reasons for this high fraud rate are varied. However, all answers point to the NIJ's conclusion that the certainty of



By **Tonya J. Mead, CFE, PI**

getting caught is the best form of deterrence. As fraud fighters on the front lines, how can we increase the risk of detection? Let's start with a criminal profile.

Criminal profile: fraudsters in education

My analysis of the investigation reports published during the periods of January 2012 to June 2016, by the U.S. Department of Education Office of the Inspector General (OIG) revealed that insiders perpetrated 61 percent of the cases and outsiders perpetrated 39 percent. (See tinyurl.com/y9w4tyjh.) I'll focus on insiders because they represented the bulk of reported cases.

Insiders

My evaluation of the insider-only threats revealed that 72 percent of the crimes were committed by C-suite executives such as chief executive officers; district superintendents of traditional schools; and owners of educational testing services, career academies, tutoring companies and charter schools.

Twenty-one percent of the insider fraud crimes were committed by mid-level managers and technical experts such as contracting officers, district accountants, financial aid advisors, and teachers. In seven percent of the insider cases, fraud crimes were committed by lower-level employees, such as tutors and temporaries. The estimated total loss during this period by insider fraud was $330,582,986. (See Figure 1 at right.)

Fraudulent actions, targeted departments and vulnerable documents

Fraud in education can reach many departments. Insiders, with access to

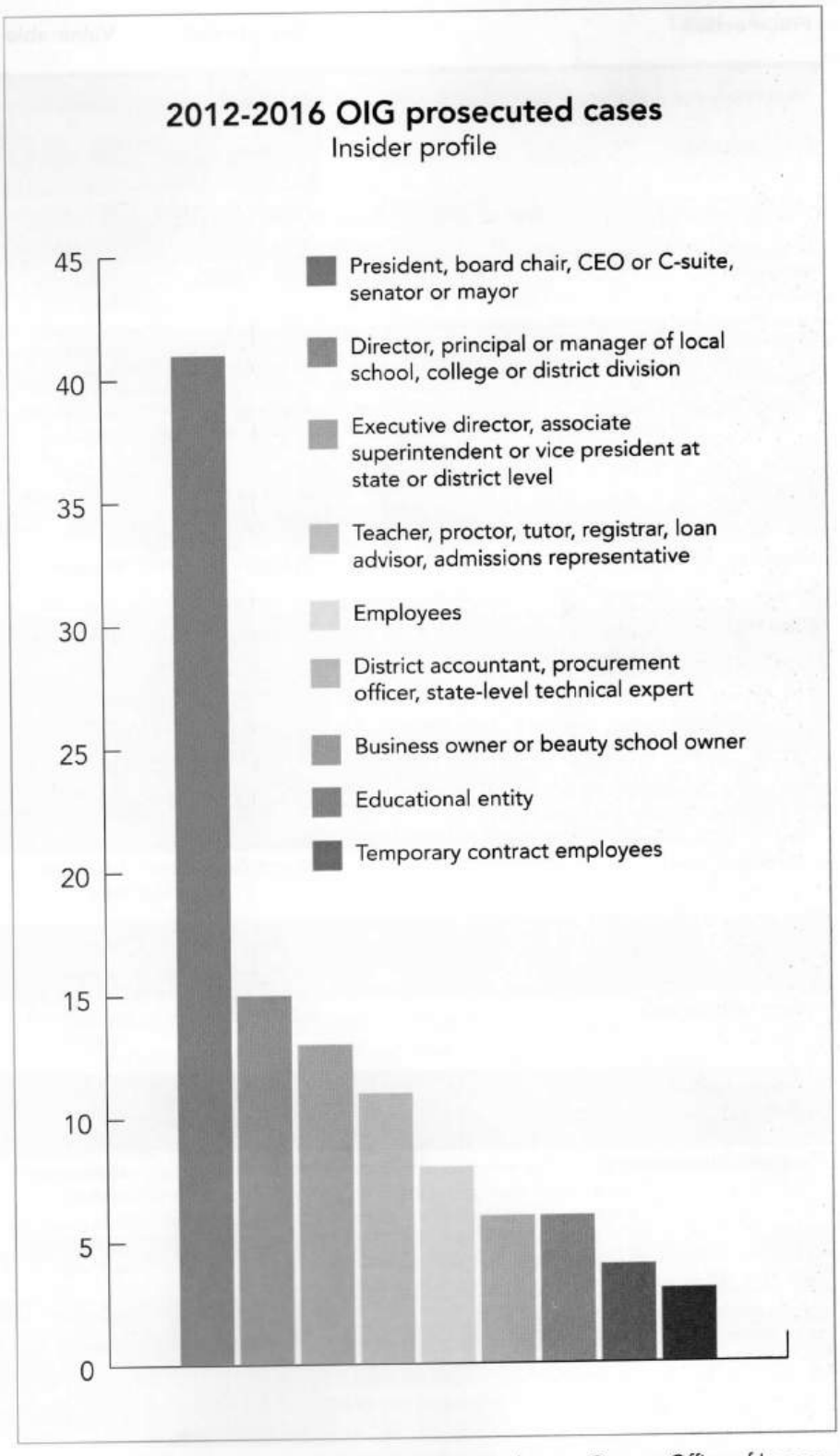


Figure 1: Insider profile: 2012-2016 OIG prosecuted cases. Source: Office of Inspector General, U.S. Department of Education, 2012-2016

Fraud action	Department	Vulnerable documents			
Alter, falsify document	Finance	cash receipts	invoices	checks	
Forge signatures	Academic	transcripts	enrollment roster	attendance records	grade reports
	Human Resources	time sheets	expense reports	pay check	
Keep gifts	Alumni Affairs	donation logs	deposit slips	withdrawal slips	
Over/understate gifts	Alumni Affairs	donation logs	deposit slips	withdrawal slips	
Change eligibility status	Athletics	enrollment roster	transcripts	attendance records	grades discipline reports
Take cash	Athletics	ticket sales	retail sales receipts	expense reports	mileage logs
Inflate cash disbursement	Finance	invoices	cash receipts	paid logs	
Pilfer inventory, equipment or supplies	Athletics	annual asset logs	bill of lading	YTD inventory	shipping receipts
	Operations	annual asset logs	bill of lading	YTD inventory	shipping receipts
	Facilities	annual asset logs	bill of lading	YTD inventory	shipping receipts
	Technology	annual asset logs	bill of lading	YTD inventory	shipping receipts
Create fictitious staff	Human Resources	employee lists	terminated lists	payroll history	benefits history
Create fake vendors	Finance	vendor lists	accounts payable	general ledger	invoices
Create fake students	Academic	admission registry	enrollment roster	attendance records	grade reports
Inflate hours worked	All department	time sheets	vendor invoices	attendance records	
Keep withdrawn students	Academic	attendance records	grade reports	discipline reports	
	Financial aid	attendance records	grade reports	discipline reports	
Falsify grade, research, and transcript tampering	Institutional research	academic papers	peer reviews	Intervention records	data logs
	Admissions	income statements	tax returns	transcripts	test scores

Figure 2: Fraudulent actions, targeted departments and vulnerable documents. Source: "Fraud in Education: Beyond the Wrong Answer," by Tonya Mead, Create Space, November 2016, amazon.com/author/tonyajmead

Risk	Red flag	Level	Actor
Program fraud	Inability to verify student/family eligibility, attendance, and/or participation, inflated invoices, invoices not traceable to a good or service, fake and/or falsified documents, employing under-qualified instructors inconsistent with program requirements	S, PS	IR
Contract fraud	No bid contracts, collusion, invoices not traceable to a good or service, vendor invoices lack detail	S, PS	IR, OR
Enrollment fraud	Students don't meet entrance criteria, excessive number of students on rolls that fail to meet the "continuing enrollment" status (poor grades, attendance, accounts in arrears), failure to conduct random audits onsite visits to verify significant changes in enrollment, inability to verify student/family eligibility, attendance and/or participation	S, PS	IR
Embezzlement	Ghost vendors, fake accounts payables, fraudulent reimbursements, inflated time sheets, re-routed refund checks, vendors with same address	S, PS	IR
Payroll fraud	Inflated time sheets, ghost employees, employees with same address, employees with no deductions for payroll taxes, outliers for overtime, employees working longer than 24 hours in one day, inconsistencies in start/termination dates, employee matches with vendor details, drawing unauthorized compensation from more than one campus location	S, PS	IR
False claims	Falsified documents, forged accounting records, false certification of 90/10 rule	S, PS	IR
Cash theft	Failure to timely report and review grant receipts and disbursements	PS	IR
Material misstatements	Misrepresentation of job placement rates, overstatement of employment potential, prospects for future employment	PS	IR
Visa fraud	Selling of educational documents that allow foreigners to obtain U.S. student visas and/or work in the country while providing almost no instruction, lack of master schedule, failure to maintain attendance records	PS	IR
Diploma mill fraud	Offers credential without class, test, study or independent research requirement	PS	IR, OR
Financial aid fraud	Visible signs of altered financial documents, interest and income dividends are zero on tax returns; unresolved discrepancies among various sources; forged signatures, inaccurate and/or mismatched Social Security numbers; falsified loan promissory notes; lack of citizenship documentation	S	IR, OR
Identity theft	Lack of identity theft program, failure to develop process/procedure for verifying student identities upon registration, fake, forged or altered identification documents on file, address discrepancies, invalid phone numbers, returned mail, same address used by multiple non-affiliated students (family, sorority, etc.)	S, PS	IR, OR
Credit card fraud	Altered cards, larger than usual transaction amounts; credit card not physically available, use of credit card to non-authorized vendors/retailers; use of credit card for non-authorized purchases; lack of system in place to review monthly credit card statements and reconcile against receipts; purchases or advances made in regions, states, countries outside of the usual transaction zone	PS	IR, OR
Plagiarism	Varying tenses are present; certain phrases inconsistent with style of document; complex concepts inserted in the document in a scattered, illogical manner; absence of, incorrect and/or incomplete listing of sources; a fact checker identifies possible plagiarism	PS	IR
Falsified research	Reproduced data doesn't generate the same results	PS	IR
Records, documents tampering	Altered documents, missing documents, untimely submission of documents, document contents don't match digital version or vice versa, changes in data without supporting documentation, excessive data access overrides, data access outside normal operating hours, reports of stolen passwords	S, PS	IR
Residency fraud	Lack of residency documents, altered documents	S, PS	OR
Academic fraud	Summative and/or standardized exam results inconsistent with formative assessments, class grades, language proficiency, attendance, student does not met objective criteria for entrance	S, PS	IR, OR
No show classes	Students obtain course grades, class credit or credentials without attending class, completing an independent project, taking an exam, or completing course work	S, PS	IR
Student debt relief scams	Telemarketers, email spam, direct mail, radio, cable television and online promotions	PS	OR

Figure 3: Functions at risk for fraud by level and perpetrator threat. Source: "Fraud in Education: Beyond the Wrong Answer," by Tonya Mead, Create Space, November 2016, amazon.com/author/tonyajmead

critical documents and data in various departments, can perpetrate it. Front-office activities of pre-admissions, registration, master scheduling, grant reporting and matriculation are vulnerable.

The risk of fraud doesn't diminish in back-office operations. Administrators, vendors and outsiders exploit vulnerabilities in payroll, data management, information technology, finance, procurement and operations. Figure 2 on page 14 lists fraud actions, targeted departments and vulnerable documents.

Red flags of fraud in education

Much like fraud occurring in other sectors, we can identify fraud in education with red flags. I identified several red flags from an analysis of cases prosecuted by the U.S. Department of Education OIG and the Securities and Exchange Commission. I also reviewed state criminal and civil cases from 2012 to 2016.

My analysis revealed several processes and functions that are at high risk to fraud, mismanagement and abuse. I also found that the level of threat varied by education subsector level. (See Figure 3 on page 15. S = secondary, PS = post-secondary, IR = insider risk and OR = outsider risk.)

Like most frauds, fraud in education aligns with the statistics that conclude the majority of fraud losses are committed by internal staffs of organizations. Most of the time, fraud is eventually detected because somebody from the inside or outside blew the whistle.

I hope this column raises awareness that fraud in education isn't an anomaly or an exception but a growing trend that we as fraud examiners shouldn't ignore. ■ FM

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