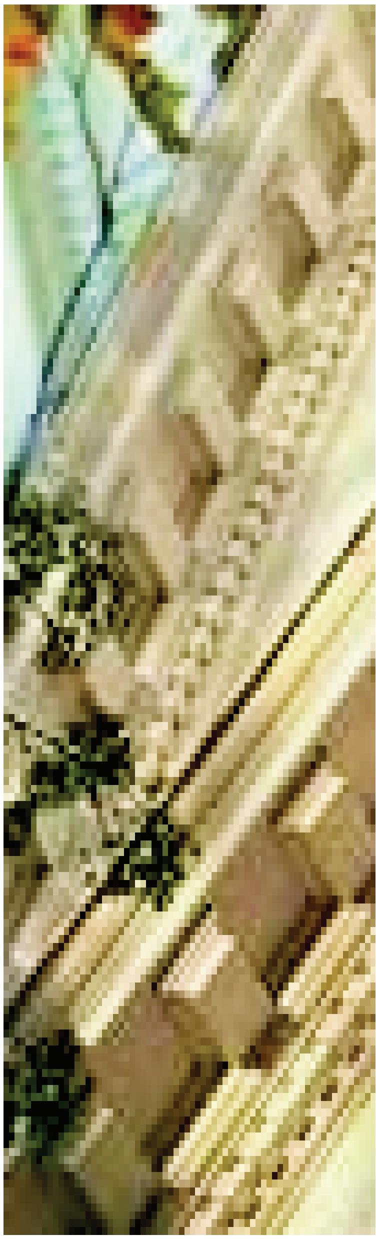
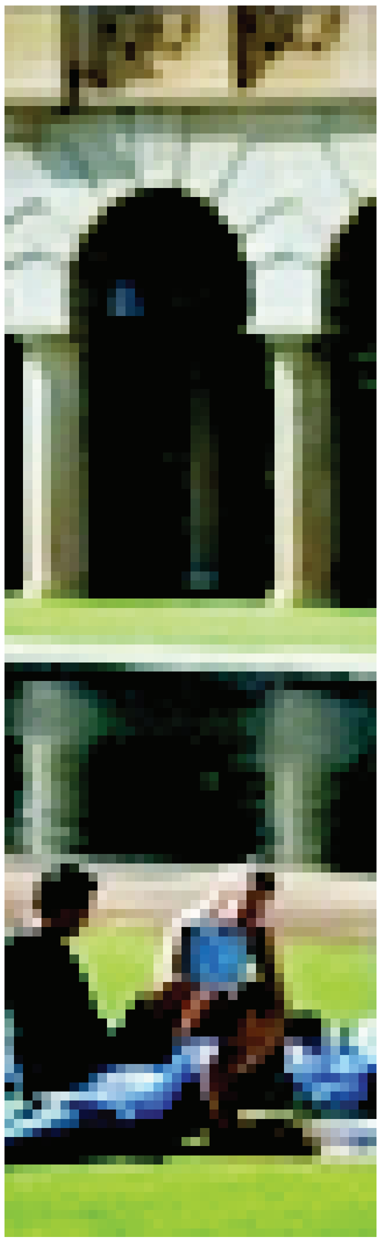
COLLEGE SCHOLARSHIP FRAUD PREVENTION ACT OF 2000

ANNUAL REPORT TO CONGRESS

May 2008





Department of Justice

Department of Education

Federal Trade Commission

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Submitted by:
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Table of Contents

Executive Summary

Every year, millions of high school graduates seek creative ways to finance the costs of a college education. In the process, they sometimes fall prey to scholarship and financial aid scams. To help students and their families, on November 5, 2000, Congress passed the College Scholarship Fraud Prevention Act of 2000 ("Act"), Pub. L. No. 106-420, 114 Stat. 1867. This Act established stricter sentencing guidelines for criminal financial aid fraud and charged the U.S. Department of Education ("ED"), working in conjunction with the Federal Trade Commission ("FTC"), with implementing national awareness activities, including a financial aid fraud awareness page on the ED website. The Act also required that the Attorney General, the Secretary of Education, and the FTC jointly submit to Congress each year a report on that year's incidence of fraud by businesses or individuals marketing financial aid assistance services to consumers. As noted in previous years' Reports, the Department of Justice ("DOJ"), ED, and the FTC have implemented all the provisions of the Act.

ED and the FTC have continued their consumer education efforts. Using a variety of media, including websites, booklets, brochures, videoconferences, flyers, posters, and bookmarks, ED and the FTC are disseminating information to help consumers avoid falling prey to financial aid scams. The ED materials also provide information about the major federal student aid programs. They remind students that there is no fee to submit the *Free Application for Federal Student Aid* and that free assistance with applying for aid is available from ED, high school counselors, and college financial aid administrators.

Complaints regarding financial aid fraud have remained fairly constant for over a decade with one anomalous spike in 2004 and a return to the general trend in 2005. In addition, except for 2004, financial aid-related complaints have diminished as a percentage of all complaints received by the FTC. A review of these complaints indicates that the nature of financial aid fraud has changed over time, shifting from scholarship search services to financial aid consulting services.

This year, the DOJ brought numerous actions against individuals engaged in financial aid fraud, five of which resulted in the imposition of the Act's sentencing enhancement for fraud in connection with obtaining, providing, or furnishing financial assistance for an institution of higher education. The FTC and the DOJ continue to monitor complaints to determine if law enforcement action is necessary. Finally, the FTC and the DOJ will continue to coordinate parallel civil/criminal actions in appropriate cases.

I. Introduction

Every year, families lose money to fraudulent financial aid schemes. With four-year college education costs rising faster than the rate of inflation, many parents are understandably concerned about how to pay those costs without saddling themselves or their children with heavy debt.[1] Scam artists prey on those concerns. To help federal agencies combat financial aid scams, Congress passed the College Scholarship Fraud Prevention Act of 2000 ("Act"), Pub. L. No. 106-420, 114 Stat. 1867 (2000) on November 5, 2000. The Act required that the U.S. Sentencing Commission establish stronger sentencing guidelines for higher education financial assistance fraud. It also directed the Secretary of Education, working in conjunction with the Federal Trade Commission ("FTC"), to implement national awareness activities, including a financial aid fraud awareness site on the Department of Education's ("ED") website. The Act further required that the Attorney General, the Secretary of Education, and the FTC jointly submit to Congress each year a report on fraud by businesses or individuals that market advice or assistance to students and parents seeking financial aid for higher education.

The Department of Justice ("DOJ"), ED, and the FTC prepared this Report according to the Act's directive. Building on previous reports,[2] this Report provides an update of the activities of the DOJ, ED, and the FTC to combat financial aid fraud and an assessment of the nature and quantity of financial aid fraud during the past year.

II. Implementation of the College Scholarship Fraud Prevention Act

A. Amendments to Sentencing Guidelines

As discussed in previous Reports, the U.S. Sentencing Commission amended the Sentencing Guidelines, effective November 1, 2001, to include enhanced penalties for financial aid fraud. Specifically, it amended Section 2B1.1(b)(7)(D)[3] of the Sentencing Guidelines to add a provision raising the relevant "offense level" by two levels if the crime involved misrepresentations to a consumer in connection with obtaining, providing, or furnishing financial assistance for an institution of higher education. There were five cases reported in 2007 in which the sentencing enhancement was imposed.

B. National Awareness Activities

1. ED's National Awareness Activities

ED continues to provide consumer education products and engage in outreach efforts to increase awareness of financial aid fraud. The primary education products are a brochure called "Save Your Money, Save Your Identity" and a web page called "Looking for Student Aid." Both products list sources of free information about financial aid and warn students about financial aid scams. As discussed in more detail in prior Reports, ED also publishes booklets, fact sheets, and a video that provide fraud prevention information to consumers. Distribution of print publications with scam warnings totaled nearly 7 million copies in 2007. Visits to ED's www.studentaid.ed.gov website, which hosts the online versions of the publications, numbered more than 10.3 million in 2007. ED's Office of Inspector General also hosts a fraud awareness website with scholarship scam information. The site, found at www.ed.gov/misused, registered more than 51,000 visits in 2007.

ED's outreach activities include numerous presentations to students, parents, counselors, and college financial aid administrators. Staff members make an effort to include, at a minimum, a brief warning about financial aid fraud in each workshop.

In order to stay aware of issues concerning various audiences, ED staff members monitor listservs directed to professionals (such as high school or TRIO[4] counselors) involved in helping students obtain financial aid. List members sometimes post messages asking or warning about companies charging fees for aid or information about aid. In response to such messages, ED staff members occasionally post reminders that students can receive free advice from college financial aid administrators and from ED (as well as from high school and TRIO counselors). ED's reminders are sent to more than 5,000 listserv members.

2. FTC's Consumer Education and Outreach Efforts

The FTC has an ongoing project to prosecute and prevent scholarship fraud called Project Scholarscam. Formally initiated in 1996, it includes both law enforcement action and a consumer education campaign to help students, parents, educators, and financial aid administrators identify and avoid financial aid scams. The FTC's consumer education campaign includes a package of consumer education materials, a website (www.ftc.gov/scholarshipscams), as well as a series of flyers, posters, and bookmarks. The website contains comprehensive information about financial aid scams and ways consumers can avoid falling prey to fraudulent marketing schemes. The flyers, posters, and bookmarks include abbreviated information from the website and tips to help consumers avoid financial aid scams.

To reach the largest number of at-risk consumers, the FTC developed partnerships with public and private organizations, including the National Association of College Admissions Counselors. From October 1996 through December 2007, the FTC and its partners distributed over 3.5 million print publications and the FTC had more than one million visits to its financial aid scams website. In 2007, the FTC distributed over 37,800 print publications and had more than 115,900 visits to the website.

The FTC also continued to provide print publications to students and their parents through local school districts' college and career fairs. The FTC also conducts outreach directly to high school students and their parents. For example, the FTC included materials on financial aid fraud in presentations to students as part of its High School Financial Literacy project. Moreover, the media often are interested in financial aid scams. Accordingly, the FTC staff frequently provides, through the media, tips for consumers to avoid these scams.

Continuing the partnership between ED and the FTC, ED's 2008-09 Counselors and Mentors Handbook includes a fact sheet based on the FTC's consumer information, "Don't get scammed on your way to college!," as well as numerous other references to information on avoiding financial aid scams. In addition, ED's www.studentaid.ed.gov website and the FTC financial aid scams website are cross-linked to each other.

III. Nature and Quantity of Incidents of Financial Aid Fraud

A. Overview of Financial Aid Fraud

As discussed in previous Reports, operators of financial aid scams generally promise their services will ensure that students receive either a scholarship or more financial aid than students and parents could get on their own. Other typical claims include: (1) that millions (in some cases billions) of dollars of scholarships go unclaimed every year, with promises to get the student his or her fair share; (2) that the advertiser has extremely high success rates, including "testimonials" from satisfied customers; and (3) that the advertiser is endorsed or approved by a federal or state agency, a chamber of commerce, or a Better Business Bureau.[5] In fact, for fees ranging from $50 to more than $1,000, these operators provide few, if any, services to help students and their families find financial aid.

ED published new regulations on November 1, 2007, to address the practice by colleges of steering students to preferred lenders that had provided financial benefits to the colleges or college officials.[6] The regulations, which generally take effect on July 1, 2008, are designed to make more transparent the relationships between schools and lenders making federally-reinsured education loans. The regulations disqualify lenders that offer various financial benefits or services to colleges or college officials in order to obtain referrals from the schools. The regulations require colleges that provide lists of preferred lenders to their students: (1) to make clear that students need not borrow from the listed lenders; (2) to disclose the method used to select preferred lenders; (3) to include a minimum number of unaffiliated lenders on any preferred lender list; (4) to provide information that permits students to compare the terms offered by the listed lenders; and (5) to exclude lenders that offered financial benefits to the college in return for inclusion on the list.

B. Assessment of Current Status of Fraud

Both the FTC and ED receive financial aid related complaints from consumers. The FTC reviewed complaints in its Consumer Sentinel[7] database to assess the current status of financial aid fraud, while ED reviewed complaints received by the Federal Student Aid Information Center and its Office of Inspector General.

1. FTC Complaint Database

The FTC has been monitoring consumer complaints related to financial aid fraud for over a decade. Figure 1 shows the number of complaints attributable to financial aid fraud in the FTC's Consumer Sentinel database between 1996 and 2007.[8] Between 1996 and 2007, the number of financial aid-related complaints remained relatively flat, with a spike in 2004.[9]

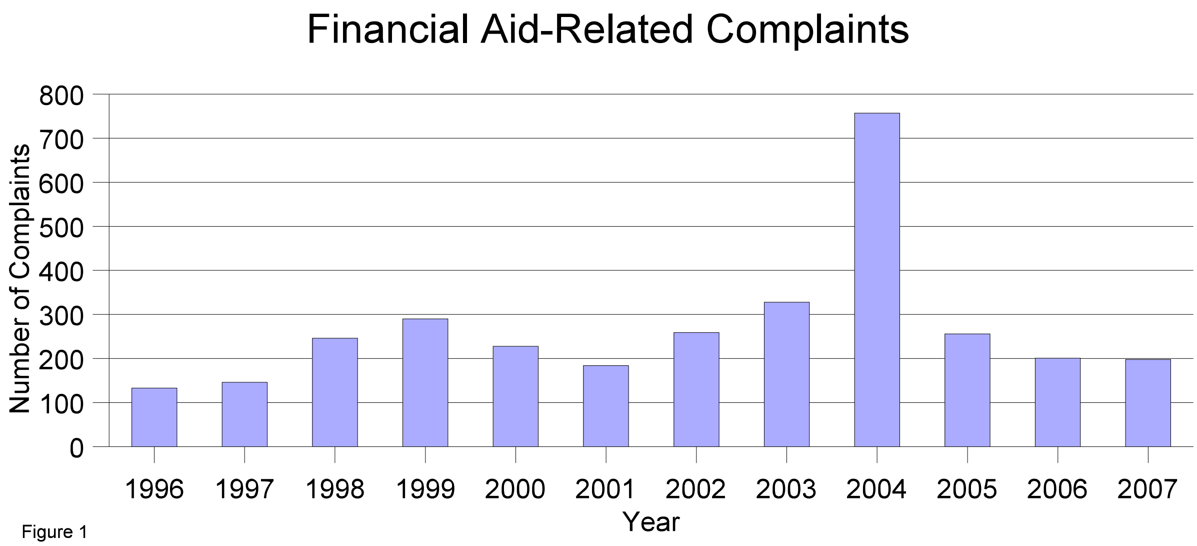

Figure 1

To further evaluate the extent of financial aid fraud, it is useful to place the raw numbers of complaints in the context of all complaints received by the FTC on a yearly basis. Figure 2 shows the ratio of financial aid-related complaints to total fraud complaints.

With the exception of the previously discussed anomaly in 2004, financial aid-related complaints have diminished as a percentage of all complaints received by the FTC since 1996. As discussed in prior Reports, however, raw complaint and inquiry numbers are an imperfect gauge of the extent of fraudulent activities. For example, certain types of fraud may be under-represented, whereas in other instances the raw numbers may over-state the extent of the fraud.[10] Nevertheless, the FTC's successful law enforcement and consumer education campaign (begun in 1996), as well as ED's national awareness activities, may be contributing to the proportionally low complaint figures.

The Consumer Sentinel complaint database is a useful tool, not only to estimate the extent of scholarship fraud, but also to assess the nature of financial aid fraud and identify possible targets for law enforcement action. A review of the complaints indicates that the nature of financial aid fraud has changed over time. A decade ago, the majority of complaints received by the FTC concerned telemarketing fraud by bogus scholarship search firms. Recent complaints, however, mainly involve financial aid consulting firms that promise customized, comprehensive financial planning to maximize the students' financial aid eligibility. These firms often use direct mail and oral presentations to market their services.

The FTC also monitors complaints in Consumer Sentinel to identify possible targets for law enforcement action. The FTC typically investigates companies or individuals that generate a sufficient number of complaints to indicate a pattern or practice of deceptive fraudulent conduct. The complaints filed in 2007 were against many different companies, and the FTC will continue to monitor these and other companies for possible law enforcement actions.

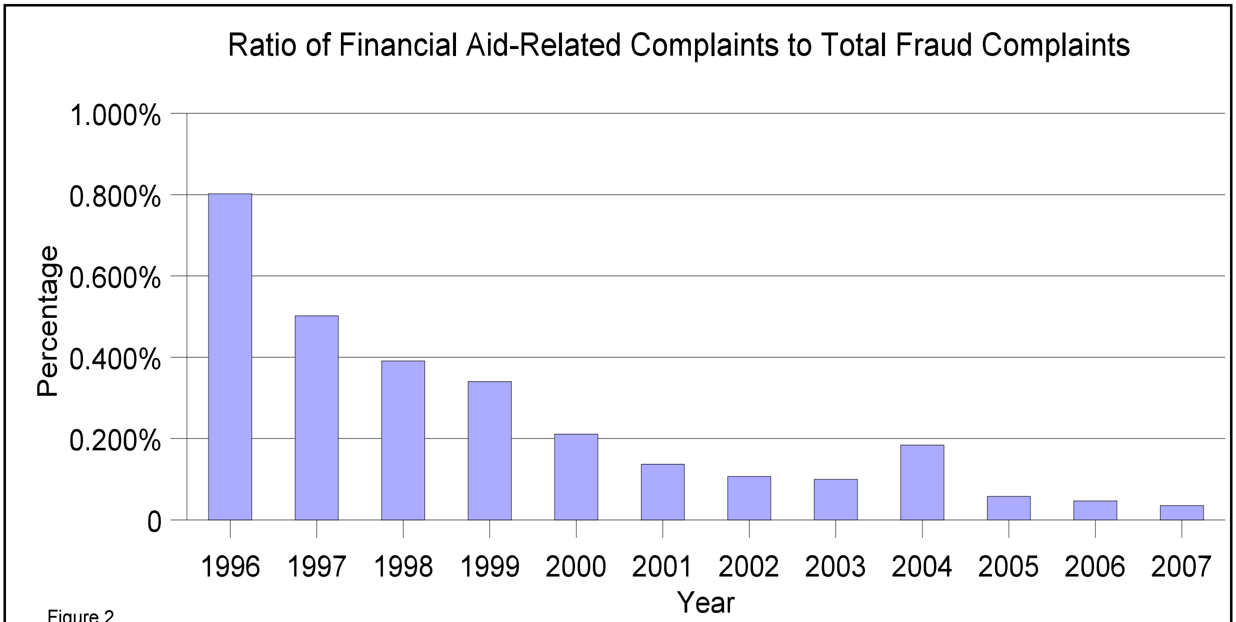

Figure 2

2. ED's Complaint Monitoring

ED also receives written and telephone complaints about financial aid fraud. However, because ED is not a major clearinghouse for complaints, the number of complaints it receives is small in comparison to the number received by the FTC.

Complaints are submitted via two avenues: the Federal Student Aid Information Center ("FSAIC") and the Office of Inspector General ("OIG"). In 2007, the FSAIC and OIG received a total of 54 fraud complaints relevant to this report. This number represents a decrease from the 2006 total of 86. It is unclear whether the decline is due to increased awareness on the part of students, decreased activity by scammers, or a combination of the two.

a. Complaints to ED's FSAIC

The FSAIC has two sections: the correspondence unit and the telephone hotline (1-800-4-FED-AID).

In 2007, the correspondence unit received no written complaints relevant to this report. The FSAIC's hotline received eight calls in 2007 (up from five in 2006) from consumers who believed they had been targets of financial aid scammers. In three cases, students received calls or emails from individuals offering either a grant or scholarship for college. In two cases, a caller offered a reduction in student loan debt or interest rates. One caller offered a "federal aid refund," one offered to help discharge student loans due to the borrower's disability, and one offered to consolidate alleged defaulted loans. In all cases, the marketers requested personal information. Only one person of the eight – a mother whose daughter was offered a $20,000 "federal grant" in return for a $299 processing fee – divulged bank account information. Another mother, whose son was offered a $5,000 reduction in his loan balance, gave out her son's Social Security Number. Those two complainants were given contact information for the FTC and ED's Office of Inspector General as appropriate. The other six refused to divulge any personal information and called the FSAIC simply to inform ED about the attempted scams.

The FSAIC also receives complaints about websites charging students a fee to submit the *Free Application for Federal Student Aid* ("FAFSA").[11] ED has investigated the legality of companies charging students to help complete the FAFSA. Although the law prohibits companies from charging a fee for the "collection, processing, or delivery of financial aid" through the use of the FAFSA, those organizations that ED investigated claim that their fee is for providing advice and counsel to students and families, not for helping complete the FAFSA. Further, this statutory prohibition does not provide ED with a practical means of compelling commercial entities to change their practices because these entities have no direct relationship with either ED or the educational institutions, lenders, and guarantors with whom ED has a funding and regulatory relationship under the student aid programs. ED therefore has no way to impose any administrative sanction upon these companies, and numbers of complaints regarding these companies are not included in this Report.

b. Complaints to ED's Office of the Inspector General

The OIG maintains a hotline (1-800-MIS-USED) and email address (oig.hotline@ed.gov) for complaints relating to fraud, waste, and abuse involving ED's funds. Complaints also may be submitted by mail, by fax (202-245-7047), via the http://www.ed.gov/misused website or directly to OIG field offices across the country. OIG staff reported that there were 45 complaints in 2007 (a decrease from 80 in 2006) regarding telemarketers offering "government grants." As appropriate, 21 complaints were investigated by OIG and 24 were forwarded to the FTC or ED's office of Federal Student Aid for handling. OIG's investigations of these complaints were ongoing as of the end of 2007.

C. FTC's Financial Aid Fraud Prevention Program

As mentioned above, the FTC's Project Scholarscam combines law enforcement[12] with consumer education to stop fraudulent purveyors of so-called scholarship or financial aid services. In total, 13 companies and 34 individuals are subject to federal court orders prohibiting future misrepresentations. Most of the orders permanently ban the defendants from marketing scholarship or financial aid-related services. Many of the orders also require the defendants to post performance bonds before engaging in telemarketing.[13] The FTC has refunded to consumers or disgorged to the U.S. Treasury more than $2.1 million.[14]

D. DOJ's Financial Aid Fraud Prevention Program

Since last year's Report, several individuals who engaged in fraud in the offering of higher education financial aid were indicted, convicted, or sentenced. Six defendants in five cases were subjected to the Act's two-level sentencing enhancement.

- *United States v. Terri Lynn Shepherd*, Case No. 4:06-cr-00332-GH (E.D. Ark.)

From April 16, 2003, through February 20, 2004, the defendant knowingly and willfully embezzled, stole, and obtained by fraud and false statement, federal Pell grants totaling more than $2,000. The defendant perpetuated the fraud by claiming on her FAFSA that she would have a high school diploma or GED before enrolling in an institution of higher learning when she knew that she would not have either diploma at the time of enrollment. Pursuant to a plea agreement, the defendant pleaded guilty to Count One of a four-count Indictment, which charged a violation of 18 U.S.C. § 1001 (false statement). On April 17, 2007, the defendant was sentenced to five years probation, a $100 special assessment, and $12,472 in restitution to ED. The Court applied the two point sentencing enhancement under U.S.S.G. §2B1.1(b)(7)(D). This case was investigated by ED's Office of Inspector General.

- *United States v. Robert C. Hazlett,* Case No. 2:04-cr-00276-SMM (D. Ariz.)

From April 1999 through June 2000, the defendant, the president and owner of a debt collection agency, Valley Acceptance Corporation ("VAC"), conspired with four debt collectors employed by VAC to commit bank fraud against SunTrust Bank and student loan fraud against ED. Defendant was convicted of a conspiracy to engage in bank fraud and student loan fraud on February 9, 2006. A total of 537 fraudulent applications were submitted to the bank for consolidated loans totaling $3.6 million. Borrowers subsequently defaulted on 240 of the loans causing a loss to the bank in excess of $1.4 million. Most of the loss was ultimately reimbursed through insurance from ED. On January 26, 2007, the defendant was sentenced to eight months imprisonment, with credit for time served, and three years probation. The Court imposed a $100 special assessment, and $744,376 in restitution to three victims: Sun Trust Education Loans, Educational Credit Management Corporation, and the United States. This case was investigated by ED's Office of Inspector General and the Federal Bureau of Investigation ("FBI").

- *United States v. Edward Reed, Kelvin Jackson and Faquir Muhammad*, Case No. 2:07-cr-00182-DSF (C.D. Cal.)

Defendants were charged on April 3, 2007, in a seven-count Indictment. Count One of the Indictment alleged that the defendants conspired to obtain funds insured by ED through fraud and false statements. The Indictment alleged that defendant Reed, the director of Financial Aid at the University of West Los Angeles, applied for a student loan for himself, using an alias, knowing that he was not an enrolled student. The Indictment also alleged that defendant Reed conspired with co-defendants Jackson and Muhammad to help them apply for student loans. In exchange for his assistance, defendant Reed collected one-half of the student loan proceeds they received. The Indictment further alleged that co-defendants Jackson and Muhammad recruited other students to apply for loans through defendant Reed and that they shared the proceeds received by defendant Reed for helping these other students apply for student loans. Counts Two through Seven alleged violations of 18 U.S.C. §1097(a) that occurred when each defendant made false statements and fraudulent representations on promissory notes and received student loans based on those false statements and representations. This case was investigated by ED's Office of Inspector General and the Postal Service's Office of Inspector General.

- *United States v. Marjorie Kellerman and Hugo Barraza,* Case No. 2:07-cr-00927-DSF (C.D. Cal.)

Defendants Kellerman and Barraza were admissions officers at Westwood College, a private college located in Los Angeles. The Indictment alleged that in late 2004 and early 2005 the defendants generated fraudulent documents purporting to show that applicants to Westwood College had graduated from high school or received GED certificates. By doing so, the applicants became eligible for admission to the school and qualified for Pell grants, Stafford loans, and other student financial assistance. Defendants were indicted on September 11, 2007 in a seven-count Indictment that alleged that a false document was created for each of seven students. This case was investigated by ED's Office of Inspector General.

- *United States v. Gilbert Aguilar*, Case No. 5:06-cr-00804-RMW (N.D. Cal.)

Between June 1, 2000, and June 24, 2000, the defendant submitted applications to banks and financial institutions for student loans from ED and the Federal Family Education Loan Program. The loan application included false and fraudulent information. Pursuant to a plea agreement, the defendant pleaded guilty to Count Two of the Indictment. On May 31, 2007, the defendant was sentenced to two years probation, a $100 special assessment, a $2,000 fine, and $52,277 in restitution to ED. This case was investigated by ED's Office of Inspector General.

- *United States v. Serge Ivanov and Michael Solovey*, Case No. 3:04-CR-00310 (N.D. Cal.)

On September 23, 2004, the defendants were indicted on charges of conspiracy, financial aid fraud, mail fraud, and money laundering. The defendants pleaded guilty on November 2, 2005. The Indictment alleges that from approximately December 1999 to October 2001, the defendants devised and participated in a scheme to defraud ED in connection with its administration of Title IV financial aid programs and its control over the disbursement and use of federal Pell grants and student loans. The alleged goal of the scheme was to circumvent Title IV and its regulations and obtain federal funds through fraudulent means. The proceeds of the scheme were used, among other things, for personal gain and/or for the promotion of the underlying scheme to defraud. Both defendants were sentenced on December 12, 2006. Ivanov was sentenced to a term of incarceration of 12 months, 3 years supervised release, payment of a $100 special assessment, and $343,833 in restitution. Solovey was sentenced to a term of incarceration of 30 months, 3 years supervised release, payment of a $100 special assessment, and $343,833 in restitution. This case was investigated by ED's Office of Inspector General, the Internal Revenue Service, and the FBI.

- *United States v. Khue T. DeLeon*, Case No. 3:05-cr-00244-RNC (D. Conn.)

On September 30, 2004, the defendant signed and submitted a fraudulent loan application seeking a $30,000 non-federal student loan from Bank One. The loan application falsely stated that defendant's father-in-law was a cosigner for the loan. However, the signature of the defendant's father-in-law was forged on the application. The defendant also submitted a counterfeit pay stub as verification of income allegedly from her father-in-law's employment.

The defendant received over $135,000 in student loan disbursements in connection with the fraudulent application. Pursuant to a plea agreement, the defendant pleaded guilty to violating 18 U.S.C. § 1014 (making false statements on a student loan application). The defendant was sentenced on September 20, 2007, to imprisonment equal to time served, followed by five years probation, the first six months of which to be served in a half-way house, and the subsequent six months confined to her home. The defendant was also ordered to pay a $100 special assessment and $135,831.65 in restitution. This case was investigated by ED's Office of Inspector General.

- *United States v. Andrew Pines*, Case No. 3:07-cr-00151-MRK (D. Conn.)

From about August 1, 2003, until on or about July 10, 2004, the defendant knowingly and willfully, and with intent to defraud, devised a scheme to defraud lenders and to obtain student financial aid in the form of student loans. During this time period, the defendant submitted 11 applications for student loans to Wells Fargo using names and Social Security Numbers of persons other than his own. As of April 12, 2007, the loss to Wells Fargo totaled $106,808.47. On July 2, 2007, pursuant to a plea agreement, the defendant pleaded guilty to a one-count information that charged him with violating 18 U.S.C. § 1341 (mail fraud). On September 20, 2007, the defendant was sentenced to 12 months plus one day imprisonment, a $100 special assessment, and restitution equal to the amount of the loss suffered by Wells Fargo Bank.

- *United States v. Parvesh Singh and Dolores Evelyn Cross*, 1-04-cr-00613-JEC (N.D. Ga.)

From August 1999 to February 2002, defendants Singh and Cross devised a scheme to obtain money by defrauding ED, Morris Brown College ("College"), students and potential students of the College. Defendant Cross was the President of the College and defendant Singh was the Financial Aid Director during the time relevant to the fraudulent activity. Specifically, the defendants sought federal financial aid funds from ED and private lenders to which the College was not entitled. The defendants compiled rosters of students who had registered for courses but failed to enroll in the College in order to retain student loan funds received by the College with respect to these students, funds which should have been returned. The defendants were charged in a thirty four-count Indictment on December 8, 2004. Defendant Singh pleaded guilty to one count of the Indictment on May 24, 2006, and Defendant Cross pleaded guilty on May 1, 2006. Both defendants were sentenced on January 3, 2007. Cross was sentenced to five years probation, with a special condition of 12 months home confinement with six months of electronic monitoring, 500 hours of community service, $13,942 in restitution, a $3,000 fine, and a $100 special assessment. Defendant Singh also was sentenced to five years probation, with a special condition of 18 months home confinement with six months electronic monitoring, $5,939 in restitution, a $3,000 fine, and a $100 special assignment. This case was investigated by ED's Office of Inspector General and the FBI.

- *United States v. Alan King*, Case No. IP-07-cr-0016-01 (S.D. Ind.)

From March 2004 through July 2006, the defendant obtained 12 payments from FEMA after filing false claims for Hurricane Katrina relief, and, using false names and identifiers, received eight student loans even though he was never a student. On May 8, 2007, the defendant was convicted of theft of government property, student loan fraud, false representation of a Social Security Number, and federal student financial aid fraud. The same day, the defendant was sentenced to 105 months imprisonment, a $100 special assessment, and $183,845.54 in restitution to the FEMA, ED, and three private financial institutions. This case was investigated by ED's Office of Inspector General, the Department of Homeland Security's Office of Inspector General, and the FBI.

- *United States v. Paul Carlos McStallworth*, Case No. 6:07-cr-10057-KMH (D. Kan.)

During the 2003-2004 school year, the defendant applied for student aid at three institutions of higher learning. The applications were in his own name and in the name of two aliases. The defendant used three different Social Security Numbers, none of which were actually his. Pursuant to a plea agreement, the defendant pleaded guilty on March 28, 2007 to a violation of 20 U.S.C. § 1097(a). On July 25, 2007, the defendant was sentenced to two years probation, a $25 special assessment, and $15,476.92 in restitution. The Court granted the government's request for a two point enhancement pursuant to U.S.S.G. § 2B1.1(b)(8)(D). This case was investigated by ED's Office of Inspector General and the Social Security Administration's Office of Inspector General.

- *United States v. Clarissa T. Ayo, Marondo L. Basquine and Dionne C. Wilkens*, Case No. 3:07-cr-00121-RET-CN (M.D. La.)

In June 2004, defendant Basquine stole a check in the amount of $6,163.52 from Southern University that was addressed to a former resident at the defendant's address. Defendant Basquine enlisted the assistance of defendant Wilkens in cashing the check. Defendants Basquine and Wilkens, along with Defendant Ayo, were alleged to have shared in the proceeds of the check. The defendants were indicted on June 7, 2007. On August 28, 2007, defendant Basquine pleaded guilty to Count One of the Indictment that alleged a violation of 18 U.S.C. § 371 by conspiring to illegally convert government property and to obtain federally provided and insured financial aid funds in excess of $200. On September 12, 2007, defendants Wilkins and Ayo pleaded guilty to the same charge. As of the end of 2007, the defendants were awaiting sentencing. This case was investigated by ED's Office of Inspector General and the Social Security Administration's Office of Inspector General.

- *United States v. Anita D. Morris, Dorris Morris, Ruth S. Frazier and Kevin Morris*, 1:06-cr-10030-DDD-JDK (W.D. La.)

On September 28, 2006, the defendants were indicted for: (1) conspiring to obtain money from Northwestern State University in Natchitoches, Louisiana; (2) submitting false applications and documents to obtain federal student aid and student loans; and (3) submitting additional false applications in order to keep the funds. Defendant Anita Morris pleaded guilty on March 21, 2007, to Counts One (conspiracy) and Three (bank fraud) of the Indictment. On March 12, 2007, defendants Dorris Morris, Ruth Frazier and Kevin Morris pleaded guilty to Count One (conspiracy) of the Indictment.

Defendant Anita Morris was sentenced on June 25, 2007, to 33 months imprisonment on each of two counts, to run concurrently. The imprisonment is to be followed by three years probation on Count One and five years probation on Count Three, to run concurrently. There was also a $200 special assessment, and $30,541.53 in restitution to ED. On June 25, 2007, defendant Kevin Morris was sentenced to serve 15 months imprisonment, followed by three years probation, a $100 special assessment, and $6,649.63 in restitution to ED. On June 27, 2007, defendant Frazier was sentenced to serve five years probation, a $100 special assessment, and $6,649.63 in restitution to ED. On July 13, 2007, defendant Dorris Morris was sentenced to serve five years probation, a $100 special assessment, and $5,588.66 in restitution to ED.

The United States probation office recommended that both Defendants Anita Morris and Kevin Morris receive a two-point enhancement under U.S.S.G. § 2B1.1(b)(8)(D). The enhancement was imposed by the Court. This case was investigated by ED's Office of Inspector General.

- *United States v. Siza Ahmed*, Case No. 2:06-cr-00073-DBH (D. Me.)

On or about December 9, 2004, the defendant applied for an $18,500 Federal Stafford Loan. The defendant also submitted a Federal Stafford Loan Certification, dated November 23, 2004, attesting that she would be attending London South Bank University ("LSBU"). She also forged the signature of a LSBU official. The defendant never enrolled in or attended LSBU. On January 4, 2007, pursuant to a plea agreement, the defendant pleaded guilty to violating 20 U.S.C. § 1097(a). On April 10, 2007, the defendant was sentenced to seven and one-half months imprisonment, a $100 special assessment, and $50,865.20 in restitution to ED. This case was investigated by ED's Office of Inspector General.

- *United States v. Carlos de Jesus Gil Pena a/k/a Noel Cestary* , Case No. 1:07-cr-10032-DPW (D. Mass.)

From about June 22, 2004, through at least September 29, 2004, the defendant knowingly and willfully embezzled, misapplied, stole, obtained by fraud and forgery, and failed to refund funds and property provided and insured under 20 U.S.C. § 1097(a) by submitting a FAFSA and signing a Master Promissory note. Both documents included materially false statements since the defendant misrepresented his actual name and his actual Social Security Number. As a consequence of these misrepresentations, the defendant received student loan funds disbursed by the New England Tractor School in the amount of $6,217. On January 25, 2007, the defendant was indicted in the name of "John Doe a/k/a Noel Cestary" on charges unrelated to student scholarship fraud. On August 10, 2007, pursuant to a plea agreement, the defendant pleaded guilty to all three counts of a superseding Indictment, which, in part, charged a violation of 20 U.S.C. § 1097(a) for student loan fraud in the amount of $6,710. This case was investigated by ED's Office of Inspector General, the Department of State's Office of Inspector General, the Department of Housing and Urban Development's Office of Inspector General, and the Immigration and Customs Enforcement.

- *United States v. Goddey A. Otagba, Emannual O. Njoku, Patricia Cole, Sylvia Copeland and Charles Nnaji*, Case No. 2:06-cr-20242 (E.D. Mich.); *United States v. George R. Zimmerman*, Case No. 2:05-cr-80529-MOB-PJK (E.D. Mich.)

Metro Technical Institute, Inc. ("MTI"), was a post-secondary vocational educational institution offering non-degree programs from 1992 through October 16, 2002. From 1998 through October 16, 2002, MTI fraudulently obtained approximately $540,000 in higher education assistance funds. False documentation was prepared on site for program reviews and audits. Executive Director Zimmerman pleaded guilty to financial aid fraud on July 6, 2005, and cooperated in the investigation and prosecution. The five defendants (two owners and three employees) were indicted on July 27, 2006 and charged with conspiracy to defraud the government, financial aid fraud, and mail fraud.

On March 8, 2007, defendant Njoku, a co-owner of MTI, pleaded guilty to Count One of the Indictment (conspiracy to defraud the United States). On October 20, 2006, defendants Cole and Copeland pleaded guilty to Count Two of the Indictment (violation of 20 U.S.C. § 1097(a)). On January 8, 2007, defendant Nnaji pleaded guilty to Count One of a Superseding Information (20 U.S.C. § 1097).

On July 11, 2007, defendant Njoku was sentenced to 12 months and one day imprisonment, followed by 24 months of supervised release, a $100 special assessment, and $533,344 in restitution to ED. On April 19, 2007, defendant Cole was sentenced to serve 24 months probation, a $100 special assessment, and $470,818 in restitution to ED. On April 27, 2007, defendant Copeland was sentenced to serve 24 months probation, a $100 special assessment, and $520,000 in restitution to ED. On July 17, 2007, defendant Nnaji was sentenced to 24 months probation, a $25 special assessment, and $5,101 in restitution to ED. Currently, defendant Otagba is a fugitive. This case was investigated by ED's Office of Inspector General.

- *United States v. Georgia Martin*, Case No. 0:06-cr-00236-ADM (D. Minn.)

From about January 13, 2003, through January 1, 2004, the defendant made material and false statements by completing student loan applications, using the name and Social Security Number of her deceased grandmother as co-signer, and forging the deceased grandmother's signature. The false statements were made for the purpose of procuring and obtaining two student loans provided and insured by ED under Title 20, United States Code, Chapter 28. Pursuant to a plea agreement, the defendant pleaded guilty on August 29, 2006, to violating 18 U.S.C. § 1014 (false statement in loan application) and 20 U.S.C. § 1097. On March 8, 2007, the defendant was sentenced to 12 months and one day imprisonment, with supervised release for a five-year term, a $200 special assessment, and $66,845 in restitution to ED and the Student Loan Finance Corporation. This case was investigated by ED's Office of Inspector General.

- *United States v. Tomas Daniel Ramirez*, Case No. 9:07-cr-00008-DWM (D. Mont.) (related case, *United States v. Dennis G. Gonzales*, Case No. 9:06-cr-00041-DVM (D. Mont.))

The defendant was indicted on September 18, 2006, for educational program fraud and aggravated identity theft under the alias name Dennis G. Gonzalez. On February 7, 2007, defendant Ramirez was indicted in his true name on charges of illegal entry of a deported alien, federal education assistance fraud, aggravated identity theft, and perjury. Pursuant to a plea agreement, the defendant pleaded guilty to all four counts on February 20, 2007. Sentencing is scheduled in 2008. This case was jointly investigated by ED's Office of Inspector General and the Department of Agriculture's Office of Inspector General.

- *United States v. Roscoe C. Smith and James S. Williams*, Case No. 2:06-cr-00012-DWM (D. Mont.)

On or about September 23, 2001, the defendants caused false documents containing materially false statements to be sent to Montana State University, Bozeman, Montana. In these documents, the defendants used aliases and stated that they never attended college. In fact, the names used were not defendants' real names and both defendants had previously attended college. As a result of these actions, the defendants obtained federal student loans from about January 8, 2002, through January 17, 2002. On July 24, 2006, the defendants were indicted on charges of violating 18 U.S.C. § 1001(a)(3) and 2(b) (false statements) and 20 U.S.C. §1097(a) (student loan fraud). On January 25, 2007, defendant Williams pleaded guilty and was sentenced to five years probation, a $100 special assessment, and $6,177 restitution to ED. On October 2, 2006, defendant Smith pleaded guilty. On January 25, 2007, he was sentenced to five years probation, a $100 special assessment, and $7,577 in restitution to ED. This case was investigated by ED's Office of Inspector General.

- *United States v. Prudence Carmen Jeffers*, Case No. 1:06-cr-00848-ARR (E.D.N.Y.)

From August 2002 through October 2005, the defendant applied for, received, and failed to return federal and state benefits to which she was not entitled, including federal student loans and grants, New York State unemployment benefits, and Medicaid benefits. She used one or more Social Security Numbers and represented that the numbers were assigned to her. The defendant was indicted on December 21, 2006, on charges including violation of 20 U.S.C. § 1097(a). The defendant's trial is scheduled in 2008. This case was investigated by ED's Office of Inspector General and the Department of State's Office of Inspector General.

- *United States v. Daniel Aramis Millan*, Case No. 1:06-cr-00054-NGG (E.D.N.Y.)

Between April 2001 and November 2005, the defendant obtained approximately $71,000 in federal-guaranteed student loans by submitting forged documents certifying he was a student at an approved foreign graduate school when, in fact, he was not enrolled at the school. The defendant also submitted forged school certifications in an attempt to obtain an additional $74,000 in loans. The defendant was charged on January 25, 2006, in an eight-count Indictment.

On July 8, 2006, pursuant to a plea agreement, the defendant pleaded guilty to Count Seven of the Indictment that charged a violation of 20 U.S.C. § 1097(a) (fraudulently obtaining student loan funds). On January 26, 2007, the defendant was sentenced to five years probation, 300 hours of community service, a $100 special assessment, and $77,734.90 in restitution to the Sallie Mae Corporation. The government requested a two point enhancement under U.S. Sentencing Guidelines Manual § 2B1.1(b)(8)(D) that was not granted by the court. This case was investigated by ED's Office of Inspector General.

- *United States v. Harold Ofori*, Case No. 6:05-cr-06042-DGL-JWF (W.D.N.Y.)

The defendant submitted two Federal Stafford student loan applications to Citibank Student Loan Corporation, one on about July 5, 2001, and the other on August 8, 2002. Each application was accompanied by a certification page that contained fraudulent representations that it had been completed and certified by officials at Karol Marcinkowski University of Medical Sciences in Pozan, Poland. The applications also falsely stated that the defendant was attending the university. The defendant was charged on March 3, 2005, in a two-count Indictment for violating 18 U.S.C. § 1344 (bank fraud) and 20 U.S.C. § 1097(a) (student education loan fraud). On June 21, 2007, the defendant pleaded guilty, pursuant to a plea agreement, to a superseding information charging two misdemeanor counts of education loan fraud. On July 19, 2007, the defendant was sentenced to time served, followed by two years probation, and a $50 special assessment. The Court granted the request of the government for a two-point enhancement under U.S. Sentencing Guidelines Manual § 2B1.1(b)(8)(D). This case was investigated by ED's Office of Inspector General.

- *United States v. Robert L. Bethel*, Case No. 1:06-cr-00031-SHR (M.D. Pa.)

Beginning in November 1996 and continuing through January 2006, the defendant devised and executed a scheme to defraud ED by completing and submitting four sets of FAFSAs and the Student Aid Report, using the name and Social Security Number of his deceased half-brother. As a result of these actions, the defendant illegally received federal loans and grants. On January 24, 2006, the defendant was charged in a four-count Indictment alleging that the defendant violated 18 U.S.C. § 1341 (mail fraud), 18 U.S.C. § 1001 (false document or writing), 20 U.S.C. § 1097(a) (student loan fraud), and 42 U.S.C. § 408 (a)(7)(B) (false use of a Social Security Number). On March 27, 2007, pursuant to a plea agreement, the defendant pleaded guilty to student loan fraud and false use of a Social Security Number. On April 18, 2007, he was sentenced to 37 months imprisonment, with a downward departure of 36 months and credit for time served, a $100 special assessment, and $4,659 in restitution to ED. This case was investigated by ED's Office of Inspector General.

- *United States v. Bradley T. Griffith,* Case No. 2:06-cr-00190-DWA (W.D. Pa.)

On January 18, 2005, the defendant submitted to ED, through NCO Financial Systems, a collection company, a completed Loan Discharge Application which contained the forged signature of a physician. The defendant submitted the application for the purpose of inducing ED to pay off the defendant's student loan balance in the amount of $24,300. The defendant was charged on May 23, 2006, with violating 20 U.S.C. § 1097(a) (student loan fraud) and 18 U.S.C.

§ 1341 (mail fraud). On June 29, 2006, he pleaded guilty. On October 2, 2006, he was sentenced to 12 months and one day imprisonment, followed by three years supervised release, and a $200 special assessment. This case was investigated by ED's Office of Inspector General and the Veterans Administration's Office of Inspector General.

- *United States v. Reynaldo Garcia*, Case No. 1:06-CR-00575 (S.D. Tex.)

The defendant was the owner and President of R.G. Educational Services Incorporated, doing business as South Texas Vocational Technical Institute ("Institute") in Brownsville, Texas. ED regulations required the Institute to refund any credit balance to the student within 14 days, or to return any federal assistance funds to ED within 30 days after a student's withdrawal from the Institute. The defendant was charged on July 11, 2006, in a 17-count Indictment of failing to refund federal assistance funds in violation of 20 U.S.C. § 1097(a), misapplication and failure to refund federal assistance funds in violation of 20 U.S.C. § 1097(a), and making and using false writings or documents in violation of 18 U.S.C. § 1001. Pursuant to a plea agreement, the defendant pleaded guilty to six counts of the Indictment on January 8, 2007. On May 2, 2007, he was sentenced to 41 months imprisonment, followed by three years supervised release, a $600 special assessment, a fine of $10,000, and $81,404.86 in restitution. This case was investigated by ED's Office of Inspector General.

- *United States v. Barbara Bland,* Case No. 1:06-cr-00064-IMK (N.D. W. Va.)

Beginning in September 2004, the defendant submitted a false and fraudulent "Initial Application for Approval to be Designated as an Eligible Institution and to Participate in the Federal Financial Assistance Programs," including fraudulent financial statements, to qualify her business, the Art and Science Institute of Cosmetology and Massage Therapy, for receipt of federal financial assistance for its students. The defendant was charged on July 12, 2006, in a five-count Indictment with violations of 20 U.S.C. § 1097(a) and 18 U.S.C. § 1001 (false statements). Pursuant to a plea agreement, the defendant pleaded guilty to Count One of the Indictment (student financial aid fraud) on June 26, 2007. On January 3, 2007, she was sentenced to two years probation, including six months home detention, and a $200 special assessment. This case was investigated by ED's Office of Inspector General.

- *United States v William B. Spatafore*, Case No. 1:06-cr-00065-IMK (N.D. W. Va.)

On October 11, 2005, the defendant filed a fraudulent FAFSA that falsely represented he was married. He was charged on July 12, 2006, in a one-count Indictment of violating 20 U.S.C. § 1097(a). Pursuant to a plea agreement, he pleaded guilty to this charge on September 29, 2006. On February 15, 2007, he was sentenced to five years probation, a $100 special assessment, and $14,550 in restitution to ED. This case was investigated by ED's Office of Inspector General.

- *United States v. Shavon Casson*, Case No. 06-cr-0167-c, 07-cr-0009-c (W.D. Wis.)

In November and December 2004, the defendant used the identities of her deceased sister and cousin to obtain fraudulent student loans. In 2006, she fraudulently used the Social Security Number of an individual whose identity she had assumed to open bank accounts and gain employment. While employed at a nursing home, she stole a patient's debit card that she used to make purchases in the amount of $12,000. She was indicted on January 4, 2006, with student loan fraud, identity theft, and fraudulent use of a Social Security Number. Pursuant to a plea agreement, she pleaded guilty to these charges on January 29, 2007. On April 4, 2007, she was sentenced to 65 months imprisonment, followed by three years supervised release, a $100 special assessment, and $40,785.16 in restitution, including $18,432 to ED. ED's Office of Inspector General investigated this case.

IV. Conclusion

As described above, the FTC, ED, and the DOJ have implemented the directives of the College Scholarship Fraud Prevention Act of 2000. Together, the agencies are continuing to work cooperatively to prosecute and prevent financial aid fraud.

Endnotes

1. David Ellis, *College Costs: Up, up and away*, CNN/Money.com, Aug. 17, 2006, http://money.cnn.com/2006/08/17/pf/college/college_costs/index.htm ("The cost of higher education looks like it's climbing . . . again. While the final trend figures for the fast-approaching 2006-2007 academic year are still being compiled, students can expect about a 5 percent increase in both tuition and fees. . . ."); The College Board, *Trends in College Pricing 2007* (2007), *available at* http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf (stating that over the past year, tuition and fees at public and private four-year colleges and universities increased between 5.5 and 6.6 percent); The College Board, *Trends in College Pricing 2006* (2006), *available at* http://collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf (stating that over the past five years, tuition and fees at public four-year colleges and universities increased by 35 percent in inflation-adjusted dollars); *Fact Sheet: The Skyrocketing Cost of Higher Education*, House Comm. on Educ. and the Workforce, 108th Cong. (2003), http://www.house.gov/ed_workforce/issues/108th/education/highereducation/factsheetcost101003.htm (noting that since 1981, "the cost of a public four-year college education has increased by 202 percent, while the Consumer Price Index has gone up only 80 percent.")

2. The inaugural Report can be found at http://www.ftc.gov/opa/2002/05/scholarshipfraud.htm. The second Report can be found at http://www.ftc.gov/opa/2003/05/scholarshipfraud.htm. The third Report can be found at http://www.ftc.gov/opa/2004/05/scholarshipfraudrpt.htm. The fourth Report can be found at http://www.ftc.gov/opa/2005/05/scholarship.htm. The fifth Report can be found at http://www.ftc.gov/opa/2006/05/scholarshipfraud.htm. The sixth Report can be found at http://www.ftc.gov/opa/2007/05/collegescholarshipfraudrpt.shtm.

3. On November 1, 2004, this provision was re-designated as U.S.S.G. § 2B1.1(b)(8)(D).

4. The title "TRIO" refers to a group of programs operated by post-secondary schools and nonprofit organizations to increase awareness among secondary school students of opportunities for post-secondary education and to support students enrolled in post-secondary education. The programs are called "TRIO" because there were three of these types of programs when they were first created in the 1960s: Upward Bound, Talent Search, and Student Support Services. Currently, there are eight TRIO programs: Educational Opportunity Centers, Ronald E. McNair Postbaccalaureate Achievement Programs, Student Support Services, Talent Search, Training Program for Federal TRIO Programs, TRIO Dissemination Partnership, Upward Bound, and Upward Bound Math/Science.

5. *Solving the Problem of Scholarship Scams: Hearings on S. 1455, The College Scholarship Fraud Prevention Act of 1999 Before the S. Comm. on the Judiciary*, 106th Cong. (1999) (statement of Mark Kantrowitz, publisher of the www.finaid.org website).

6. Federal Family Education Loan Program: Final Rule, 72 Fed. Reg. 61,960, 61,999-62002, 62,2003-62,2004 (Nov. 1, 2007) (to be codified at 34 C.F.R. §§ 682.200(b), 682.212(h), and 682.401(e)).

7. Consumer Sentinel is a secure, password-protected complaint database designed to allow law enforcers to share data about fraud. Consumer Sentinel now contains over 4.3 million fraud and identity theft complaints and is accessible to more than 1,700 law enforcement agencies – including every state attorney general in the U.S. and consumer protection agencies in 23 nations. In addition to consumer complaints, Consumer Sentinel offers its law enforcement members a variety of tools to facilitate investigations and prosecutions, including: law enforcement alerts about companies currently under investigation; information to help agencies coordinate effective joint action; an index of telemarketing sales pitches; and data analysis to determine trends in fraud. Consumer Sentinel collects complaints from the FTC and over 125 other organizations. More information on Consumer Sentinel can be found in *Consumer Fraud and Identity Theft Complaint Data – January - December 2007*, issued by the FTC in February 2008 and available online at http://www.ftc.gov/opa/2008/02/fraud.pdf.

8. As discussed in the 2006 Report, the Consumer Sentinel category "scholarship/educational grants" previously included both financial aid-related complaints and non-educational grants complaints, and the ratio between the two groups remained relatively constant through 2003. Due to a significant increase in the number of non-educational grants complaints in 2004 and 2005, the ratio changed dramatically making it difficult to compare increases or decreases in the "scholarship/educational grant" category accurately. Accordingly, the FTC performed an analysis to estimate the number of financial-aid related complaints in 2005 and prior years. To avoid that problem in the future, the FTC introduced a new Sentinel complaint category in 2006, "non-educational grants," so that the two groups of complaints could be collected and maintained separately. The number of financial aid-related complaints and total fraud complaints per year are set forth in the following table.

Year	Financial Aid-Related Complaints	Total Fraud Complaints	Percentage of Financial Aid Complaints to Total Fraud Complaints
1996	133	16,588	0.802%
1997	146	29,069	0.502%
1998	246	62,840	0.391%
1999	290	85,248	0.340%
2000	228	107,910	0.211%
2001	184	134,136	0.137%
2002	259	241,498	0.107%
2003	328	327,479	0.100%
2004	757	410,709	0.184%
2005	256	437,906	0.058%
2006	201	428,319	0.047%
2007	198	555,472	0.035%

9. Using the data available, the FTC cannot conclusively explain the 2004 spike. As discussed in prior years' Reports, the influx of complaints that year may have been due, in part, to the FTC's then-recent actions against two companies, The College Advantage and National Student Financial Aid. It is not unusual for complaints to temporarily rise after the FTC announces law enforcement actions.

10. As discussed in previous years' Reports, the number of complaints contained in the Consumer Sentinel database does not provide a complete picture of the extent of consumer injury from any particular type of fraud – although it is used extensively by the FTC and other law enforcement agencies nationwide to spot trends in fraudulent practices and identify potential targets for law enforcement. These numbers could be skewed for several reasons, including: (1) some consumers may complain directly to the company or to law enforcement authorities that do not input their complaints into the Sentinel database; (2) some financial aid scams that operate on the Internet are relatively inexpensive, and consumers often do not complain when the financial injury is low; (3) increases in the number of complaints may reflect an increase in the number of law enforcement and consumer protection agencies referring complaints to the Consumer Sentinel database; and (4) increases in the number of complaints may reflect greater consumer awareness of the fraud and how to report it.

11. To apply for federal student financial aid, and to apply for many state student aid programs, students must first complete the FAFSA. ED uses information provided on a student's FAFSA to determine the student's eligibility for aid from the Federal Student Aid programs. Many states and schools also use the FAFSA to award aid from their programs. Some states and schools may require the student to fill out additional forms.

12. Among other things, the FTC enforces Section 5 of the FTC Act, 15 U.S.C. § 45, which prohibits unfair or deceptive acts or practices in or affecting commerce. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), allows the FTC to bring, by its own attorneys, actions in federal district court to halt violations of Section 5. Remedies available to the FTC include permanent injunctions and equitable monetary relief such as restitution to consumers or disgorgement of unjust enrichment. Section 13(b) also allows the FTC to seek preliminary relief, including temporary restraining orders and preliminary injunctions. In appropriate cases, the FTC may seek preliminary relief on an *ex parte* basis.

13. Performance Bonds are designed to deter defendants from engaging in misrepresentations and provide a fund to redress consumer injury should defendants violate the order.

14. Although the FTC obtained approximately $22.8 million in judgments, the full amount of these judgments was not collected. In the case of judgments obtained through settlement, the FTC suspended some or all of the judgment amount based upon the defendants' demonstrated inability to pay the full amount. In other cases, the FTC referred unsatisfied judgment balances to the U.S. Treasury for further collection efforts.