U.S. DEPARTMENT OF EDUCATION (ED)
OFFICE OF POST SECONDARY EDUCATION

Transcription for Negotiated Rulemaking Sessions and Public Hearings 2012

Deliverable 4: Transcription of Public Hearing held at South Mountain Community College, Student Union Building, Room 100-ABC, 7050 South 24th Street, Phoenix, Arizona 85042 on May 23, 2012

The public hearings began as noticed in the Federal Register at 9:00 a.m.
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MS. TALWALKER: Welcome. My name is Ajita Talwalker. I am Senior Policy Advisor in the Office of the Under Secretary at the Department of Education. And I wanted to begin by welcoming you all on behalf of the Department of Education to this public hearing, and also to introduce colleagues from the Department who will be participating in the hearing today.

We have Lynn Mahaffie, who is the Senior Director for Policy Coordination, Development and Accreditation Service in the Office of Postsecondary Education; and Sally Wanner, who is an attorney in the Postsecondary Division of the Office of the General Counsel.

We appreciate your interest and the time that you are taking to share your thoughts and ideas and recommendations with us.
As you know, we published a notice in the Federal Register expressing our intent to convene a committee to develop regulations designed to prevent fraud and abuse in the Title IV programs, particularly in light of ever-changing advances in technology.

Our intent is to ensure that Title IV funds are used properly and are, in fact, provided to eligible individuals for legitimate postsecondary pursuits. The hearing, we feel, is a first step in that process.

The Department will be holding a second public hearing next week, March - May 31st in Washington, D.C., and we are also accepting written comments through our electronic system.

In September of 2011, the Office of the Inspector General issued findings outlining concerns about fraud in the distance education programs. As a result,
the Department issued a "Dear Colleague" letter, GEN-11-17, alerting institutions to the issue and providing guidance to assist in addressing it.

We are here in Arizona because institutions in this state have been particularly -- played a significant role in identifying, detecting, and combating these types of fraud and abuse.

Since the OIG's report was released, we have established an internal task force that takes a closer look at the issue, presented a topic at several conferences, including the Federal Student Aid Conference last fall, and we -- in that context we see that regulatory changes might be appropriate.

Along with the issue of fraud in the Title IV programs, we are interested in looking at potential issues around the use of debit cards and other forms of -- other mechanisms for disbursing federal student aid
funds, and as well as improving and streamlining the campus-based aid programs.

It is important to remember that these regulations are being developed in the context of current law -- that is, that we can't change provisions in the Higher Education Act through our regulations, so that some issues such as the allocation formula for campus-based aid programs would not be germane to this conversation.

We don't want to constrain anyone's comments in this regard, but we recognize -- want you to recognize that that is a limitation in terms of our actions.

Again, the purpose of this hearing is to -- for us to hear from you. We will not engage in a lot of dialogue or discussion or debate or address questions about what issues may be ultimately included in the negotiations. And we will use the information that you provide to us in these hearings, as well as any written comments
that are submitted, to inform the next negotiated rulemaking process.

We expect to announce this next round during the summer through, again, a notice in the Federal Register that will specify both the subject matter content for the negotiations as well as request nominees for the upcoming negotiating sessions.

So I wanted to thank you again for coming, and I think that will lead us to our first presenter, which I do not have a list for.

MS. MAHAFFIE: Mr. Berg?

MS. TALWALKER: Jim Berg from the Apollo Group.

MR. BERG: Good morning. Thank you very much. My name is Jim Berg, and I am Vice President and Chief Ethics and Compliance Officer of Apollo.

I have general responsibility for the detection and prevention of fraud within Apollo and its subsidiaries. These include
the University of Phoenix, Western International University, or West as we call it, and the Institute for Professional Development. All three of these subsidiaries operate in the United States, and they all three manage or administer student financial aid assistance pursuant to Title IV.

I want to take an opportunity at the beginning here to commend the Department of Education for the leadership that you all have shown in drawing public attention to the various -- very serious problem of fraud in student financial aid.

The series of public hearings that you are holding, and the subsequent negotiated rulemaking procedure that you are instituting, will in our view shed light on the dimensions of the problem and of the steps that are now being taken to defeat those who would defraud.

I also want to take a moment at the beginning to commend the Office of
Inspector General of the Education Department. The OIG's dedication in pursuing fraud and in helping education institutions develop means to combat fraud has been indispensable to the process, we believe.

My organization is proud to have an excellent working relationship with the OIG and its special agents, and we have learned much from them.

In recent years, higher education has seen tremendous growth in student financial aid and Title IV. In conjunction with this growth, the number of people attempting to defraud the government has also increased. Schools with lower tuition costs, associate programs, open enrollment models, or those offering online modalities are often targeted by these fraudsters.

However, no educational institution that participates in Title IV programs is immune. For the last four years, Apollo Group has worked diligently to develop
an effective student financial aid fraud prevention and detection program.

The Apollo program uses sophisticated techniques to identify potential Title IV fraud and to prevent the disbursement of Title IV funds to potential and current students who attempt to provide falsified information. The fraud prevention and detection program also fulfills our requirement to comply with the red flag rules of the Federal Trade Commission that requires certain institutions to develop an ID theft prevention program.

Apollo also has recently joined with other local and national institutions to collaborate further on fraud prevention methods and techniques. We believe that fraud prevention must be a priority at all institutions of higher education and within the Department of Education.

To this date, Apollo's program has experienced I think some great measures
of success. We attribute this largely to our creation of a dedicated fraud prevention team. We refer to them internally as our fraud squad, and they have T-shirts that say Fraud Squad. So when they appear you know that they are very serious about their work.

Since 2008, four full-time staff members have been trained as experts in identification and verification of potential fraud schemes and students. Now, since fraud prevention starts at the front line of any organization, a complete commitment to employee education across the organization is, we think, the most effective way to recognize the red flags or suspicious activities that are useful in identifying potential fraudsters.

Our employee awareness campaigns include formal training, teleconferences, webinars, job aids, and regular compliance alerts. And our employees are also provided easy access to an internal reporting system
where suspicious and potentially fraudulent activities that they spot may be submitted directly to the fraud squad for their assessment and action.

Additionally, we have put in place an orientation program, which is a three-week, no-cost requirement for all new degree students entering with 24 credits or less. We put this program in effect for a number of reasons, primarily because we wanted to make sure that the students entering our universities who did not have prior credits, and who did not have prior experience living with going to college, were given an opportunity to understand what college life is like, what kinds of requirements would be placed upon them, et cetera.

And as a result, we are seeing -- we believe that the participants in our orientation course are better able to persist in their work than before the institution of
the orientation class. However, the program has also proven to be a very serious safeguard against fraud in that it provides a buffer period prior to disbursement of financial aid, through which those who are only attempting to collect financial aid are not likely to persist.

The bottom line here is that those engaged in criminal activity are usually unwilling to wait to complete the three-week orientation program before the disbursement of aid. And so when they find out about this program they tend to disappear, which is good.

The historical statistics related to potential Title IV fraud scheme population at Apollo are outlined in the written statement that I have provided to you all. And I just want to review a few of those with you this morning.

We have flagged 17,600 participants -- or potential fraudsters in
our process. This constitutes just about 1.8 percent of all of the individuals who have registered over the same period. And I think we have also learned that that statistic -- 1.8 percent, 1.7 percent, somewhere under two percent -- seems to be consistent across other organizations, across other schools. We don't have complete data on that, but from what we have heard we think that that number is probably a pretty good estimate of the dimension of the fraud problem.

As we look at the fraud schemes that we have been able to detect, they typically will have 19 participants, typically one or more ring leaders and then 19 other individuals.

We have referred 886 fraud schemes to the Office of Inspector General, and from those referrals there are 12 cases that have resulted in indictments of the participants. Now, each of those cases would very likely include a high number of people,
so the number of individuals indicted is greater than the 12 cases.

In my written statement, we have several paragraphs that define for you exactly how our fraud detection and prevention system works. I won't go into that detail here in this oral statement, but the material is all in there. And it is material that we are sharing with other educational institutions, believing as we do that the more that we all unite together to fight this problem the better off it will be for all of us.

One of the main goals of our program is to prevent the disbursement or misuse of Title IV funds and student debt to the university. Students who are flagged for fraud prior to receiving any disbursements are considered caught by Apollo. We measure success in catching fraudulent students and ring leaders prior to funding by tracking a monthly catch rate, and the catch rate is the
 percentage of students not receiving funds.

The number of individuals flagged and the percentage of those caught is displayed in a chart in my written statement. I just want to highlight two months.

We have displayed about two years of data here on a monthly basis. And if I look back at the chart, I would highlight the two months of January 2011 and March 2012. In January 2011, we flagged the highest number in one month that we ever have of potential fraud students. That number is almost 1,100 in one month.

And we are pleased that of those 1,100 we were able to prevent the disbursement of financial aid to 82 percent of them. So that is our catch rate for that particular month.

In March of 2012, some 15 months later, the number of students -- potential fraudsters who we flagged that month was under 200. And since January `11, the number
flagged per month has generally been coming down.

Also, in March of 2012, we were able to catch or prevent disbursement of financial aid to 85 percent of those who we had flagged. One thing about this chart that is interesting, I believe, is the decline in the numbers of individuals who we are flagging. I think there are a couple of reasons for that.

First of all -- and this is something that we are very pleased about -- we have heard anecdotally from fraudsters themselves that they are avoiding our universities, particularly the University of Phoenix, because word has gotten out that we are going after fraudsters, and we are referring them to the OIG. So we are becoming perhaps less of a favored target for these fraud ring leaders.

The other thing that is happening, I believe, is that there is a
slight, slow, but nevertheless improvement in the economy over this period of time. And we certainly did see, with the onset of the recession in late 2008 and early 2009, we saw a lot more people moving in the direction of finding alternative means of income, fraud being one of them.

But as we -- as the unemployment rate slowly declines, as more jobs are available in the private sector, people may be going back to work, and the incidence of fraud may be overall decreasing. That has just been our experience. We don't necessarily have a wide variety of numbers to talk to you about that would indicate that that is truly a national trend, but it seems to make sense given the numbers that we have seen.

We consider these fraud schemes and fraud attempts as very serious detriments to the educational process, as well as to the missions and goals of our education
subsidiaries. As such, all student financial aid fraud that we identified is referred directly to the U.S. Education Department's OIG through regular communications with supervisors and field agents.

The Apollo fraud team meets regularly with OIG officials to discuss fraud trends, understand required information, resulting in the highest quality of referrals and subsequent prosecutions by the U.S. Attorney’s Office, and to develop cooperative best practices in alerting the OIG, postal inspectors, state, local, and other law enforcement agencies.

We provide each month a referral package that contains very specific information. We have worked with the OIG in particular to define the information that they need and that they will find most useful. By providing the best possible case referral information and in applying consistent communication on changes or
developments in case research, we believe that we can continue to work to support the goals of the Office of Inspector General in bringing these individuals to justice.

There are some additional opportunities, we believe, to detect and prevent and deal with student financial aid fraud beyond the work that is being done by many colleges and universities. Education Department resources, such as the Central Processing System and the NSLDS, the National Student Loan Data System, could be used to run reports and perform trending to offer insight into a student's loan and funding history that could indicate fraudulent patterns. I think this idea was identified in a recent OIG report.

Other red flag resources, such as access to incarceration history or the development of a hot address warehouse, similar to what is done in the banking industry, may also prove useful as
information to schools. What we have certainly found is that some of the fraud ring leaders or the fraud participants will provide an address that is nothing more than a vacant lot, and so they might try that with us. It might not work with us. Then, they move to another school and another school and another school.

So some kind of centralized database that would contain some of the information that either we or other schools have discovered as red flags or indicators of fraud would be very, very useful to all of us.

Some have suggested that all funds that are to be given to students be processed via electronic fund transfers. In fact, in the notification for this hearing, that was one of the ideas that was put forward.

It can be argued that commonality in bank accounts identified in the electronic
fund transfer process could then be used as a red flag, and there certainly would be a reduction in cost because of reduced paper transactions.

If this suggestion is considered, we believe that very great care should be taken in order to avoid an increase in costs to students where fees associated with debit cards or other banking services can be applied to them.

An even more significant concern in this area is the inability of some students even to establish a banking relationship due to poor or insufficient credit history. This concern will be most prevalent among those students who have not traditionally been served by our educational system.

Also, on a related topic, many of the fraudsters, many of the students involved, particularly those involved in fraud rings, are themselves victims of
identity theft. And they need relief from the adverse credit sooner rather than later when courts eventually take legal action or in situations where no prosecution is likely. Many of these individuals don't even know that their identity, which they might have sold for a small amount of money to a fraud ring leader, is being used in the way that the ring leader is using them. And so only subsequently do they find out that something had happened that their identity was stolen, that it was used for fraudulent purposes. Through no fault of their own, they are in some ways innocent victims of the process.

And I think in cases of proven student fraud, schools also need relief from the adverse effect of defaulted loans. And, therefore, these loans ought to be excluded from the default rate formula. The regulations that might ultimately emerge from the neg-reg process that you all foresee
could address these types of issues.

Any regulations that are created should also provide guidelines, we believe, on court-ordered restitution such as how payments are applied and on the order of application. It is a common practice that as part of the prosecution and related court process restitution is required. In this case, restitution should be whole, because federal programs must be refunded in their entirety.

We also believe that institutions should be held harmless for any Title IV funds retained if the school acted in good faith at the time of certification and disbursement.

So, in conclusion, I just want to say again how much my organization, Apollo, and the universities that we represent appreciate the opportunity to provide these oral comments and the written comments as well. And we look forward to participating
in the rulemaking and the public comment process that will unfold in the coming months.

I just want to say that we very firmly believe that sharing information and regular communication and research into best practices throughout the industry will serve to increase the success of all of these fraud detection and prevention programs and will preserve precious student financial assistance resources for those who have a legitimate claim to them.

Thank you very much.

MS. MAHAFFIE: Thank you very much for sharing your comments -

MR. BERG: Sure. Absolutely.

MS. MAHAFFIE: -- and for the work that you are doing in this area.

We have nobody else signed up until later in the day, so if there is anybody else who would like to come up, please -
DR. HURLEY: Well, I am the person who signed up, and I am here, so I can move up on the calendar.

MS. MAHAFFIE: Great. Please.

DR. HURLEY: I'm Dr. Pat Hurley from Glendale Community College in California. And as co-chair of the Federal Issues Committee for WASFAA, the Western Association of Student Financial Aid Administrators, welcome to our region.

WASFAA will be preparing comments and mailing them to you by the end of the week. I am here speaking on behalf of the California Community College Student Financial Aid Association this morning.

The California Community Colleges is the largest higher education system in the country. We have 112 community colleges, serve almost three million students, and the CCSFAA, the Community College Financial Aid Association, represents the student financial aid administrators and officers in the
colleges in that system.

And we very much thank you for the opportunity to address the issues of fraud and abuse and some possible campus-based issues that will be going to neg-reg. On fraud and abuse, we are the largest and lowest cost system of higher education in the country, and recognize the need to locate and control fraud and abuse in Title IV programs at our institutions, but are concerned about creating unduly burdensome regulations in this area. Because each occasion of fraud can be very unique, we think it will be difficult to develop regulations that address all potential abuses.

However, we do believe that with the assistance of the Department in providing institutions additional tools to identify potential fraudulent behavior, colleges themselves will be better equipped to address cases of fraud as they occur, and in that vein we offer some recommendations.
Number one is to develop profiles for possible Pell runners, and I think Mr. Berg alluded to this in his statement, or other types of fraudulent behavior and utilize the ISIR record to alert institutions when the student falls into that category.

One example might be students who have received aid from more than two institutions within three years. It is very likely -- a lot of students receive aid from two if they are transfer students. But if within three years it has been more than two, then they might be hopping around, and that might be an indication of fraudulent behavior.

By providing a common code on the ISIR records, schools could take measures to investigate the reason for the students' frequent change of school and determine if the students should continue to receive federal student aid.

Our second recommendation is to
provide institutions the ability to suspend a student's financial aid eligibility if fraud or abuse is suspected. At this point, there is no provision -- if a case is turned over to the Inspector General's office, we are often advised to continue funding the student until legal action is taken. And this would give us some way to at least halt disbursements to a student who is -- who we suspect of fraudulent behavior.

Another recommendation is to provide a flag on NSLDS to report students who owe federal student repayment to the institution. That would prevent the student from receiving aid at another institution unless the overpayment is resolved. Currently, this is allowed for students who are referred to the Department of Ed by institutions for repayment of a federal grant. However, more frequently institutions adjust the award and it ceases to be a federal overpayment. It becomes an
institutional overpayment or a debt to the institution and doesn't get recorded, and because of that isn't reported to NSLDS, and the block on the student receiving aid at any institution, which occurs if -- for overpayments reported to the Department of Ed, doesn't happen in these instances.

So there is nothing preventing the student from registering at another institution, receiving aid, and at another repeating the behavior. And because of our systems, most institutions that have some of the major computer systems -- most overpayments, if a student drops -- receives aid and drops out of class become an institutional debt, not a financial debt.

So we are recommending that the NSLDS system be expanded to allow institutions to report outstanding federal overpayments regardless of whether the overpayments are assumed by the institution or referred to the Department of Education.
for collection.

In either case, the institution should be able to report the overpayment through NSLDS that provides a flag or a comment on the ISIR record preventing further aid eligibility until the overpayment is resolved and removed from the system. And that would prevent students from hopping around to different schools, because they would be ineligible for aid at another school.

A fourth recommendation is to allow institutions to refer students who receive aid and then never attend classes to the Department -- to be referred to the Department of Ed for collection. Despite the new regulations requiring institutions to disburse Pell Grant funds for books and supplies within the first week of the semester, under current regulations it is still considered an institutional liability if the student receives aid and subsequently
never enrolls. And we are not allowed to refer those cases to the Department of Ed to be collected by the Department of Ed as an overpayment. It becomes an institutional liability.

Since many cases of fraud include students who received aid and did not attend classes, it makes sense to use ISIR information to prevent them from receiving further aid at another school unless specifically approved by a financial aid office. And that would be -- I don't know if that would be a procedural change or a regulatory change.

Recommendation five is to expand FERPA regulations to provide institutions with sufficient protection to exchange information on fraudulent cases or suspected fraudulent students. While we respect the confidentiality of student records and the danger of labeling innocent students, some of the best prevention results from information
that is shared among institutions, either by student transcripts or informal anecdotal exchanges of information.

Our sixth recommendation is do not allow students convicted of fraud to remain eligible for federal student aid. This should be a permanent disqualification. Currently, they are eligible unless as part of their conviction the Judge sentences them to no longer being eligible for aid. And that doesn't make sense to us, if they have already been convicted of defrauding the government that we should be giving them additional funding.

Recommendation seven is ironically the student loan program is the only Title IV entitlement program with annual loan limits ranging from $5,500 per year to $11,500 per year for undergraduates. This program is a potential target for fraud. Many schools, particularly community colleges, have long requested the ability to set institutional
policies governing the amount students may borrow.

In addition to helping curtail the growing student debt problem, this flexibility would assist colleges to control fraud and abuse on the part of students taking out federal student loans. And we know that this is part of your experimental site projects that are ongoing, and hopefully that will result in more authority on the part of institutions to help students curtail their debt and curtail some of the potential abuses.

In addition, when I was coming over here, part of what has been recommended is multiple disbursements, and most of the community colleges in our state do multiple disbursements. But one of the problems with that -- at my own institution, we disburse students 50 percent of their Pell Grant the week before classes start, and the remainder of their Pell Grant and all other Title IV
aid after our census date, or one month into 
the semester, so that we know that when the 
bulk of the aid is being disbursed the 
students have already attended classes for a 
month.

Another institution I was at 
disbursed on a monthly basis. But one of the 
problems with doing that has been since then 
an interpretation of the disbursement 
regulations saying that if you reduce a 
student's award at any point in the semester 
you also have to increase it throughout the 
semester, which is why many of us have 
established these census dates, and after 
that point we no longer adjust a student's 
award. But that makes it difficult for 
schools that want to do aid disbursements on 
a monthly basis. For example, if a student 
starts out full-time and you are disbursing 
their aid on a monthly basis as a full-time 
student and then they drop two classes three- 
quarters of the way into the semester,
current regulations would require you to recalculate the student's entire eligibility down to a half-time basis. And if the student had received more than two of the four disbursements, the student would owe a repayment at that point in time.

And that is really -- more schools would do multiple disbursements if it wasn't disadvantaging the students who drop -- had to drop classes later in the semester.

So one way to address that would be instead of recalculating the eligibility for the entire semester, saying that at the time of the disbursement, whatever the student's eligibility is what they are entitled to. And if they fall -- if their enrollment status changes, and their award falls below the amount already disbursed, they just are no longer disbursed any additional funds.

One of the other suggestions was debit cards. We are one of the few
institutions of the many in Southern California that currently are still disbursing funds via checks, and we are doing that because of the fees that are charged.

We have a very large, very low income immigrant population, and many of them are a little leery of establishing banking accounts, and in many cases would not. So, and we are concerned about the fees, but we probably, for cost saving measures, given the state budget, may be going in that direction. But that is a concern, is the fees that are charged in -- for a number of reasons by the debit card companies.

I would also recommend to you a report recently done by the American Association of Community Colleges on fraud and abuse and some of the recommendations that they gathered from some schools. We only have a few recommendations on the campus-based programs. We strongly support the President's initiative to increase the
work-study funding and change the formula, so
that funds are directed to institutions that
have high levels of low income students. We
look forward to that.

Most of us -- and this goes into
the SEOG awarding recommendation, which now
requires you -- us to award students SEOG
funds first to the lowest EFC students, which
are zero EFC students, which is approximately
-- which is over 60 percent of all of our aid
filers at my institution. And we have about
18,000 ISIRs this year.

So given the fact that we have
very limited SEOG funds, we never get to
students that do not have a zero EFC and that
is true of all of our community colleges in
the state. And those are often students who
also get state grants and other funds. So we
would like the opportunity to be able to move
up that EFC chart and give students who have
really comparable need but may not have as
much other aid.
So instead of tying it to the lowest EFC of Pell eligibles, we would just recommend that SEOG awards be tied to Pell eligible students.

And also, on SEOG, given the new six-year limit, lifetime limit on Pell Grants, it is unclear at this point if a student declines their Pell Grant -- and this happens at community -- is going to be happening frequently at community colleges for students who have been with us three or four years, which happens if they start with ESL or remedial classes and want to preserve their Pell for when they transfer.

So students are already coming in and asking if they can decline their Pell Grant, so that they have it available to them when they go to a four-year school. But it is unclear whether that disqualifies a student from an SEOG award or not, because right now it is targeted to Pell recipients, and if that student would be defined as a
recipient or not, and we would like some clarification in the regulations.

So with that, I thank you again for coming west, and we look forward to some good results from the negotiated rulemaking.

Thank you.

MS. TALWALKER: I just had a question. Can you add a little bit about what specific in the FERPA regulations you feel inhibits the kind of communication between institutions about potential fraud and abuse?

DR. HURLEY: If a student -- I think right now if a student is dismissed from the college, some institutions will put that on their transcript. Other than that, if -- our feeling is that since a school is identifying personally identifiable students, saying, "This student -- we found that this student ripped off our Pell Grant program," until that is proven, that that might -- that schools are very -- feel that that might be in violation of FERPA and are
very reluctant to change that kind of specific information. And we don't really have any other vehicle to do it.

But, obviously, if one school discovers a fraud ring, then the other schools would really like to know about it, because our experience is that they tend to move, particularly in an area like Southern California where you have -- we have over 30 community colleges just in the L.A. and Orange County area.

So we find that a lot of students will move from college to college, not a lot, because, I mean, we don't often hear about it. But when we do, they tend to roam around. And if schools had some way where they were not in danger of liability of being able to exchange some of that information, that would be helpful.

And one way maybe the -- you know, and maybe through the ISIR, in identifying the characteristics that usually -- that
might be typical of a Pell runner or somebody who is fraudulent, and blocking aid on the ISIR, because that then blocks aid at any institution.

MS. TALWALKER: Thank you.

DR. HURLEY: You're welcome.

MS. MAHAFFIE: Thank you very much. Is there anybody else who would like to provide comments at this time?

MR. VOYTEK: I'm actually at 11:25.

MS. MAHAFFIE: Okay. Great. Could you share your name and affiliation with us, please?

MR. VOYTEK: Hello. My name is Robert Voytek. I am with Coconino County Community College in Flagstaff, Arizona. Coconino County Community College is a small community college, 6,000 students per year. We are actually the second largest land mass-wise in the country, though. So think of Flagstaff, Grand Canyon, Navajo County, that
whole area of northern Arizona. That's us.

Distance education is vital to us to serve our constituents who are many miles away from our home location.

We are a staff of six, so administrative capability is a constant issue with us. With the budget cuts over the years, tight budgets, obviously, we are a small staff, small school, and we have got big problems headed our way with the fraud rings.

Up at our little school, you would think nobody would come after us, but we are low cost. Arizona community colleges are lower in cost than the national average. So Arizona, as a state, is a target. And when we are a target, we are being looked at not only from within state but from far away. It is typical for us to know exactly where our students are from, and at Coconino a lot of times that address will be one mile from the Chevron station off Route 89A. That is
Two years ago we started getting distance students, about 20 of them from a town in Mississippi, but that was interesting. The Arizona Association of Student Financial Aid Administrators is a pretty tight-knit group, and two years ago we had a combined meeting of all of the community college directors talking about this. And guess what state everybody had students coming from? Mississippi and Arizona, people out there. We all know the town in Mississippi, too.

Ultimately, these students ended up down at Pima. They ended up getting caught. But we all dealt with them. So here I am at my small community college. I know people from the OIG in Atlanta, in Texas, in Long Beach, and in Phoenix. They are all great people. They are very helpful in getting through these cases, and they are also overworked. There are more cases than
they can handle.

Currently, what is happening with schools is we are hardening our own individual targets. Someone must have gotten pretty good at that. I would like to share a few examples of what we have done at my school, which will be inconsistent with what other schools are doing. And this is part of the root of the problem that we are dealing with right now is some schools have really hardened up their targets, so we are just shifting the burden to other schools.

At our institution, we require official transcripts as part of our staff policy from all previously attended institutions. If the GPA from those institutions is below a 2.0 for two or more, they are denied financial aid. That has stopped our fraud rings. They can't get their transcripts from their previous schools.

We have implemented a vigilant
attendance policy with our faculty, whereby they are required as part of their contract to report attendance and non-attendance by the end of the first week of classes. We have implemented a bookstore voucher program. That is the only money a student would see up front is a bookstore voucher or the opportunity to opt out of the bookstore voucher for funds equivalent to the bookstore voucher at another store.

At three weeks into the term, we release all aid to students. So attendance has been verified after week one. Instructors are also required, if the students don't show, to let us know, let the financial aid office know directly that they haven't shown.

Now, once again, we are a small institution, a little harder at a large institution.

If we have off and on attendance, we indefinitely delay disbursement, as was
allowed by GEN-11-17 issued October 20, 2011.

I think the term "Pell runners" is inaccurate. They are running with loans also. I think Pell runners, it is minimizing the problem, but these students are also getting a significant amount of loans, more loans actually than Pell.

Our institution, we have -- our terminology for these students we use is "school hoppers." That seems to be the most consistent way that we can identify them.

Recommendations -- I would like to see the ability for schools to reduce cost of attendance for distance education students. I would like schools to have -- that is number one.

Number two, I would like schools to have the opportunity to deny loans to students on a case-by-case basis based on venue of taking classes.

Number three, I believe the Department of Ed needs a flagging system to
inform schools that they have potential fraudulent students entering.

And, number four, we need to have a system to remove potential fraudulent students under investigation from our cohort default rate. As many in this room know, Arizona holds a prestigious ranking of number one for cohort default rate. And many of us are very concerned about that, and we know that fraudulent students are affecting that rate.

Last but not least, I do think it is important to state that not all straw students are actually perpetrators. Many of them are victims. I have seen it. I think it was mentioned earlier this morning, that some of these students it is really easy to give your name, your date of birth, and your Social Security Number out to somebody else who is helping you out.

Some of these ring leaders are helping out these straw students with housing
and basic life needs, and these students, these -- I can't call them students. These straw students actually don't know what is happening to them in the process, so I think it is important to be aware of that.

Thank you.

MS. MAHAFFIE: Thank you very much. Would anybody else like to come testify at this point? Thank you. You hadn't signed up before. Could we ask you to sign up, so we can get your name and information? Thank you.

MR. CLARKE: I only have one copy. Do you want to just take that?

MS. MAHAFFIE: That's fine. I can copy it from there. Thank you.

MR. CLARKE: Good morning, Committee members and colleagues. My name is Kenneth Clarke. Presently I am the Director of Financial Aid at Paradise Valley Community College and Maricopa County Community College.
I have been in the esteemed aid profession for 28 years, for three of those years as a federal work-study student. Disbursing and delivering aid has always been a cumbersome process plagued with anxiety for both students and administrators. The student of today is very different from the student of 20 years ago.

Presently, we live in a time in society where it is just in time. Students expect that when they put pertinent information into a system they have answers in an instant. When they go to online purchases, sometimes they have the option of having it delivered to their door the next day, or they are able to download their purchase right away.

It is my contention that the paper check as a means of disbursing Title IV federal aid to students is not only obsolete, it is costly to institutions, it causes unnecessary delays, it creates unnecessary
exposure to fraud, and it negates student learning in regards to maintaining the funds in today's financial environment.

There are numerous financial institutions that are willing to provide debit cards to students, for an enrollment fee, an opportunity to have their financial institution's name on their card. Additionally, colleges and universities have historically used the student identification card as an all access card.

Currently, we are dealing with huge fraud issues, especially on the community college level, as you all know and as has been stated. Colleges must require all students to have student identification cards, if not for the total student body for those students who apply for federal financial aid.

All colleges and universities with participation agreements should have a department on their campus that can issue a
student a financial aid identification card. This card can contain all of the student's biodemographic data and biometric fingerprint scan.

Biometric is used in many applications and is affordable. These files could be sent through a secured gateway and reside on a student's NSLDS records. Students who are attempting to take online classes at a higher education institution in another state would have their information on file with NSLDS. Each time a student completes the renewal FASFA, there will be an opportunity to update and gather, revise, address, email, phone numbers, et cetera.

In closing, I would like to say that the possibilities are endless. A little more than a decade ago, I was part of the group that was given the responsibility to vet the possibility of the e-signature for the direct student loan promissory note. I believe that together we can develop
processes that will safeguard the taxpayers' investment in higher education and continue to provide student access to colleges and universities.

Thank you.

MS. MAHAFFIE: Thank you. At this point, we are going to take a 10-minute break, and then we have another speaker scheduled for when we return.

Thank you.

(Whereupon, the proceedings in the foregoing matter went off the record at 10:00 a.m. and went back on the record at 10:18 a.m.)

MS. MAHAFFIE: Sheri Jones.

MS. JONES: Good afternoon morning. My name is Sheri Jones. I'm Vice President of Administrative Services, and I am providing testimony today on behalf of Ashford University.

For the past 22 years, I have held numerous positions in institutions of higher
education with responsibility for ensuring proper administration of Title IV programs.

I would like to thank you for the opportunity to provide comments today on behalf of Ashford regarding possible regulatory changes to further help institutions combat fraud and protect students and taxpayers from fraudulent activity.

The mission of Ashford is to provide accessible, affordable, innovative, high-quality learning opportunities and degree programs that meet the diverse needs of individuals pursuing integrity in their lives, professions, and communities. And as such, we provide online programs for adult learners.

Our fall 2011 total online enrollment consists of over 73,000 students, the majority of whom are over the age of 30. We provide one of the most affordable options for earning an online degree, so along with
other low-cost institutions we are attractive to those who are intent on fraudulently accessing financial aid funds.

As online education provides the only viable option for many of our adult learners to complete a college degree, the existing fraud rings threaten access and affordability for the many authentic students who are unable to overcome personal barriers to complete a college degree in a traditional setting.

I would like to share with you Ashford's efforts that illustrate many of the best practices, but also point out the complexities and challenges associated with identifying and preventing enrollment by individuals in fraud rings who target affordable online programs in order to gain access to the financial aid funds associated with them.

Over the past several years, Ashford has invested in technology, policies
and procedures, employee training, and staff to deal with the problem of financial aid fraud in distance education programs. Improved protocols for identifying potential fraud rings includes technology to identify suspicious similarities among applicants and students, such as address, phone, geographic area, et cetera.

Lists of high school diploma mills and unverified high schools are used to screen every application and deny admission to those who clearly are not qualified. We are implementing identity software that requires applicants to answer personal questions from extensive public record and proprietary databases prior to gaining initial access to the online classroom, and thus preventing their ability to participate in academic activities prior to authentication.

Ashford is constantly assessing and investing in new technology to
effectively detect fraudulent activity. In addition to advancements in technology, the university has also employed university personnel in an effort to improve detection. All of them have direct contact with applicants, and students are required to complete training to help identify those individuals and groups with fraudulent intent and easily report them to the university's team of quality assurance specialists.

This team quickly implements identity authentication protocols when fraud is suspected and protects federal funds. For those students deemed suspicious, we impose additional protocol, whereby they must prove their identity through the submission of notarized documentation prior to disbursement of federal student aid.

The university also utilizes available external resources to inform further development of new technology and processes. For example, we participate in
available external trainings and roundtables offered by peers, the Department, and the OIG, and we have invested in certified fraud examiner training to institute best practices utilized in financial and other industries.

Additionally, we have taken the initiative on a regular basis to review investigate reports posted on the Office of the Inspector General website, which highlight recent indictments associated with student aid fraud.

Review of public record reports help us stay current on events occurring with student aid fraud in different parts of the country. Any names that are specifically listed as indicted in a financial aid scheme are researched for potential connections to students within our university. However, it is a manual and time-consuming process for an institution to seek out the relevant information and review and analyze available data about individual financial aid offenders.
that are listed in the indictments.

For example, in a recent case, a former student was seeking enrollment while under indictment as a ring leader in a financial aid fraud scheme. Had we not reviewed a PDF report line by line, we might not have known to block for attendance at our university.

In the same report, it was mentioned that there were stolen identities used in that particular scheme, so without access to the individual identities related to the case our hands are tied in terms of protecting those individuals from further harm by the fraud ring.

Currently, each institution is left to its own devices to identify and manage the problem. Regular alerts from the OIG regarding locations, characteristics, and the individual identities of those under investigation or indictment for financial aid fraud are needed.
A site or a process for institutions to share information with the Department, the OIG, and, if possible, peer institutions regarding the identity of potentially fraudulent activity by individuals is needed. Without such tools, the cost to institutions of dealing with this problem are substantial, and the costs may be prohibitive for some institutions unless collaborative strategies and resources are made available from the Department and the OIG in order to realize our potential for dealing with fraud issues in higher education institutions.

Institutions and the Federal Government, in their efforts to address this issue, would benefit from access to centralized, trustworthy, and up-to-date information that helps us identify and manage the problem. We need a place to collaborate and share information regarding high school diploma mills as well, so that we can use
that information to stop those who attempt to enter via that means.

We need deployment by the Department of data mining techniques within the Department databases to generate ISIR flags to require verification of identity when suspicions arise regarding the validity of particular students. We need regulations that allow institutions to take measures to restrict access without fear of retribution by applicants or students or the Office of the Inspector General, the Department, or the OCR.

The call for advanced action to deter fraudulent activity regarding federal financial aid funds is welcomed by Ashford University. The solution to the problems must include joint responsibility and cooperation among the Office of the Inspector General, the Department, and institutions administering federal student aid.

Not one of these entities alone
can adequately fight against those individuals and groups who are intent on posing as legitimate students for the purpose of fraudulently accessing financial aid funds, and we look forward to working with you to deter fraudulent activity in distance education.

Thank you.

MS. MAHAFFIE: Thank you very much. Darren Christman?

MR. CHRISTMAN: Hi there. Hi. My name is Darren Christman. I am actually from Kansas City, Kansas, from Lenexa, speaking as a citizen, but I should tell you that I do work at a company by the name of TouchNet that is actively involved with higher education institutions. And a lot of my thoughts come from working at that company.

I want to thank you for giving me an opportunity to share my insights and thoughts.

For the last several years I have
worked at TouchNet. TouchNet is a company that has been in higher education for over 20 years. They provide technology and payment solutions to over -- to hundreds of universities that serve millions of students.

TouchNet, over the last several years, has really followed refunds, and specifically Title IV disbursements, very closely. It has given me an opportunity to understand the market well and its existing challenges. For many years, TouchNet has been involved with e-refunds, providing a direct deposit program directly to a student's existing account. In that, they serve hundreds of institutions, and avail that to millions of students.

TouchNet, as well as I, are very concerned with the current state of affairs, as it is related to disbursements. If you do any reviews of the markets' news, there is a lot of stories of companies in our space on a regular basis.
So this exposure to the industry, knowledge, and feedback shows there is a lot of confusion in the space for students today the way things are created. And there appears to be -- to me to be deception, unfair, and predatory practices by third parties towards students in order to make a profit.

I think it is important that we deliver reliable, secure options that reduce fraud, and that a 100 percent electronic solution is required. Electronic options are more reliable, flexible, efficient. They are easy to track and provide funds more quickly compared to paper checks provided to students.

The Department of Education should consider modifying or eliminating a provision in 34 CFR Chapter 4 requiring check and cash options. If you look at -- if you step back and look at the industry as a whole, you know, one of the largest disbursement
programs in the world is going 100 percent electronic, the U.S. Treasury. By March 1, 2013, they are moving to a 100 percent electronic benefits program. We think this is an excellent model that the Department of Education should study.

One hundred percent electronic is not enough, though, without boundaries, regulations, and guidelines that protect the students from current predatory practices. Refund options need to be easy to understand, providing students at least two electronic choices, providing them control and convenience.

The practices of marketing by third companies to students directly, in my opinion, needs to be eliminated. Once a student has determined the best option and how they want to receive the refund, they should provide their personal information directly to that provider or that third party or provide direct consent to the university.
that can share the info with that third party.

I would also recommend that enrollment options must be unbiased and presented equally. The GoDirect website administered by the U.S. Treasury provides a good example of how to empower a beneficiary to make an informed, unbiased decision.

Lastly, full disclosure of all fees must be presented up front to the students. No fees should be stuck in footnotes or in small text with an asterisk, making them difficult to find. Students should be able to compare anticipated costs between all options easily.

Now, we don't believe -- or I don't believe that we should regulate the costs of cards or direct deposit. That is -- I think if you disclose those fees people will make the right choice for them.

TouchNet will be submitting comments that provide greater detail on this.
They developed what is called a four-for-four framework, which is basically the four tenets for a student-friendly program. If these ideas are implemented, we think it will streamline the existing disbursement process, provide students a greater role in deciding how to receive money, and eliminate confusion and common problems with some of the programs today.

Thank you.

MS. MAHAFFIE: Thank you. We don't have anybody else signed up at this point. But if there's anybody else who would like to provide comments, please let us know.

(Whereupon, the proceedings in the foregoing matter went off the record at 10:33 a.m. and went back on the record at 10:57 a.m.)

MS. MAHAFFIE: We're going to get started again.

MR. MONTANO: Okay. All right.

Good morning. My name is Ricardo Montano.
I'm a Financial Aid Technician with Mesa Community College here in Mesa, Arizona. And more or less some of what I will be saying is more or less improvisation, just based on what I have seen and heard.

But on the topic of fraud, after dealing with some of the students, meeting with them in person, talking with them over the phone, and actually forwarding their information to the Inspector General, some of the issues that I think we run into isn't so much at the federal level.

As a college -- I don't know if other colleges run into this also, but for the fraud rings, those ones do get forwarded to the Inspector General. However, when you have a group of students who usually don't fall into that I guess you could say quota of I think there is, what, $250,000 or more that a school or the government has lost before OIG will really pay more attention.

Forgery, I guess at the school
level, is really where it starts, at least from what we have seen. And from there, just I guess the criminal behavior just kind of increases. You know, I can get away with this, so I can probably do this. And we have seen that in more than numerous cases. The only problem with that is that seems to be more of an institutional response versus a federal response.

I guess there isn't really anything that we have seen or that I can easily find that would really back us up on that level. It is not so much a -- well, it could technically still be considered fraud, but the most we can really refer to is a little box on the verification form that said you can go to prison, jail, or both. But there really isn't anything that backs that up saying, well, this is the sanction for you forging your own parents' signature.

I guess really what I am trying to say is that in order for us to pay more
attention to the fraud level I think we should kind of drag it back down to the community level also, since this is one of the primary areas where the problem is starting to come from.

You know, we can think on a broad scale, but if we take it down to more of a micro level, maybe we will start to knock off some of the problems there. You know, kind of stop it before it starts.

And I know just speaking because on a semester basis we run into these, we see these students, we are -- we could be 98 percent sure that they are fraudulent, but we can't make that accusation, which really sucks for the school because our hands are kind of tied because the only thing we can do is just forward it on to the Inspector General.

And even at that point, from what they have told us, or at least our understanding of that, they won't act upon it
unless an actual crime has been committed, meaning that they won't do anything unless a student has received that actual funding.

So I guess it just kind of -- it is like a double-edged sword. You can either prevent it from happening, or you can let it happen and hope that OIG responds as soon as they can.

So that would just be my one recommendation is to I guess include maybe a provision that not only addresses fraud as a whole but kind of the subtopics of it, and what kind of recourse is out there for colleges to kind of rely upon if they are going to either temporarily suspend students based on forgery or providing false documents, at least at that level, because one of the bigger things that we run into is fake high school diplomas, fake GEDs, everything to fake driver's licenses.

And one difficulty at the college level that we run into is getting
confirmation from high schools that these high school diplomas are even valid, because more of us -- as fascinating as crime is, it is not all that great when you are trying to do all of these preventative actions, but there really isn't anything to back you up, and you are not getting the type of response which really -- or I guess the audience you really should be getting to prevent something as important as this, especially when it involves Pell Grant, which has already been overspent anyway.

So it just seems kind of counteractive that we want to be preventative towards these fraudulent actions, and the government is saying they have overspent, but they are willing to write off anything less than $250,000. You know, it is just one of those rolling balls where you won't notice it until it is coming straight at you.

So that would just be my recommendation is more of a preventative
approach versus repercussions.

Thank you.

MS. MAHAFFIE: Thank you very much. We appreciate your comments.

Is there anyone else who is interested in providing comments at this time?

(No response.)

Okay. Please let us know if you would like to.

(Whereupon, the proceedings in the foregoing matter went off the record at 11:03 a.m. and went back on the record at 11:49 a.m.)

MS. MAHAFFIE: We're going to take a lunch break. We'll be back at 1:30.

(Whereupon, the proceedings in the foregoing matter went off the record at 11:49 a.m. and went back on the record at 1:44 p.m.)

MS. MAHAFFIE: Good afternoon.

We're back. If anybody would like to provide
comments, please let us know.

(No response.)

(Whereupon, the proceedings in the foregoing matter went off the record at 1:45 p.m. and went back on the record at 3:49 p.m.)

MS. MAHAFIE: Thank you very much, ladies and gentlemen. We appreciate your coming to this hearing.

(Whereupon, at 3:49 p.m., the proceedings in the foregoing matter were concluded.)