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College financial-aid fraud rises as online study grows

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By Anne Ryman
 The Republic | azcentral.com
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As online college classes grow in popularity, financial-aid fraud rings are increasing as well, Arizona authorities say.

In the last three years, federal officials have uncovered three financial-aid schemes involving hundreds of thousands of dollars at Rio Salado College, an online school that is part of the Maricopa Community Colleges system.

Ringleaders used "straw" students or stolen identities to apply for federal grants and loans and then kept the money for personal use. One of the schemes went on for about four years, and another involved a ringleader working with a state prisoner to use inmates' personal information to illegally obtain financial aid. The college, which serves about 67,000 students, has tightened its application procedures in response to the crimes.

The University of Phoenix's parent company, the Apollo Group, has referred more than 850 potential fraud schemes to the federal government since 2009. About 25 of those have resulted in prosecution, said Jim Berg, Apollo's vice president and chief ethics and compliance officer.

Fraud rings hurt the schools, the government and ultimately taxpayers, Berg said, because federal money is involved. People whose identities are stolen can see their credit ruined.

"There are a lot of people who are hurt, and a lot of people who are victimized by it," he said.

Nationally, financial-aid fraud rings have increased dramatically in distance-education programs, according to a report last year by the U.S. Department of Education's Office of Inspector General. In 2011, the inspector general opened at least 100 fraud-ring investigations involving distance learning, compared with 16 in 2005.

Since 2005, at least 215 people in 42 fraud rings have been convicted of crimes. The numbers do not reflect the full scale of the fraud because, in many cases, only the ringleaders have been prosecuted, the report said.

Gaps in the application and vetting process for financial aid have made it more difficult to detect crimes at online schools. The federal government, for example, doesn't require colleges to confirm the identity of students who apply for financial aid, leaving that decision up to the schools. The inspector general's report found a "serious fraud vulnerability" in online programs with the current financial-aid system designed primarily for students in traditional classrooms where their physical presence can be monitored.



"Because of the sheer volume of referrals, finite resources and other external limitations, we cannot investigate all of the referrals we receive

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concerning distance education fraud rings," the report said.

Fraud rings often target public online schools because students aren't required to register in person. The public schools' lower tuition rates mean students are more likely to get refunds of their remaining federal awards after tuition and fees are paid to the school.

Federal student aid is designed to help students pay for education-related expenses such as tuition and fees, room and board, books, supplies and transportation.

"Those who attempt, through fraud, to divert these funds for their own personal non-educational purposes should know that they face serious criminal consequences," John Leonardo, U.S. attorney for Arizona, said in a statement.

Last week, two Phoenix women were sentenced to prison and two others received probation for their roles in a financial-aid scheme involving more than \$150,000 in aid at Rio Salado College. In a typical year, the college administers about \$90 million in financial aid to more than 14,000 students.

Beginning in 2009, court records say, Elizabeth Meza, 33, and Analisa Delgado, 39, stole or obtained personal information for 16 people and used the information to receive federal student loans and grants. They then took the funds for personal use. The scheme continued through January 2012 and was stopped when a Rio Salado employee became suspicious and reported the behavior to college officials, who then worked with law enforcement. Meza was sentenced last week in U.S. District Court to 30 months in federal prison as the ringleader. Delgado was sentenced to 18 months.

Court records say Delgado, an inmate who has been serving time at the Arizona State Prison Complex-Perryville since 2004 for other crimes, provided names and personal information of prisoners, and other people, to Meza. Meza used the information to fill out online forms and apply for federal student financial aid. Meza then posed as those students, registering for online courses and sometimes doing course work. The applications resulted in \$153,049 in federal student

loans and grants, with \$88,000 of the total paid out before the fraud was uncovered.

Two other women, Denise Wheeler, 44, and Sandra Lopez, 25, were also involved and were sentenced to three and five years of probation, respectively, according to court records.

These types of financial-aid fraud cases are increasing in Arizona, said Bill Solomon, a spokesman for the U.S. Attorney's Office in Arizona.

Many of the rings involve a leader recruiting others to act as students. Their personal information is used to enroll in school and apply for federal grants or student loans. In exchange, the students receive part of the money. Sometimes, the identities of real people are stolen and used. The students often later withdraw or never complete the courses after receiving the federal aid. Students are supposed to pay back the financial aid if they don't complete a certain amount of the course, but the fraud rings don't. Most participants don't even qualify to receive federal financial aid, the inspector general's report found. To receive financial aid, some falsely claimed to have a high-school diploma or to have passed the General Educational Development, or GED, exam.

Pell Grants targeted

Fraud rings often target Pell Grants, which are federal financial-aid awards given out based on income and don't have to be paid back. The maximum amount a student can receive through a Pell Grant is \$5,550 a year. Much of the fraudulently obtained money is never recovered.

In 2009, the federal government broke up another fraud ring involving 65 people and \$538,932 in student loans and grants at Rio Salado. The leader in that case was sentenced to 41 months in prison in January 2010. Authorities say that from July 2006 to October 2007, Trena Lynne Halton of Peoria recruited people to act as students and apply for federal financial aid. She took a cut of the money, anywhere from \$500 to \$1,500. The case was notable on a national level because authorities prosecuted all of the fraud-ring participants.

More recently, a Mesa mother, her son and stepson were indicted in August on federal charges related to financial-aid fraud involving \$328,089 at Rio Salado and three other schools.

Court records say Dorothy Ruth Granberry of Mesa persuaded people to give her access to their personal information and applied for federal financial aid on their behalf between 2008 and 2012. The indictment says very few of the students attempted or intended to go to school or earn a degree. At least one of the students faked credentials showing he had passed a GED exam.

The indictment said Granberry once worked as a counselor in a community college's financial-aid office and was familiar with federal rules and award procedures.

The financial-aid awards that Granberry obtained were often larger than the cost of attending school, court records say. The school would send the difference to the student in a check or prepaid debit card. These were mailed to addresses that investigators linked to Granberry. She would deposit the funds into her bank account, keep part of the money and give the rest to the student, the indictment says. In some cases, the



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student would deposit the funds and then give a cut of the money to her.

As the scheme went on, many students received notice from colleges that they weren't making satisfactory academic progress and were warned they would become ineligible for federal aid. The indictment says Granberry helped the students write appeal letters to the school's financial-aid office. The appeals often had false or misleading information. For instance, one student claimed to be in therapy because she had been abused by her husband, a claim the indictment says was false.

The students registered at Rio Salado; Argosy University, a for-profit institution; and Mesa and Chandler-Gilbert community colleges. Granberry could not be reached for comment.

Changes under way

The inspector general's report released last year found gaps in the financial-aid system that should be corrected to cut down on fraud. For instance, the personal information of prisoners was used in at least two separate cases to obtain thousands of dollars in financial aid. Sometimes the inmates were part of the scheme. Other times, their identities were stolen. Prison inmates aren't eligible for federal financial aid. The inspector general recommended setting up agreements with federal and state prisons so that inmates' names are checked in a database and flagged if they try to obtain financial aid.

The U.S. Department of Education notified schools last year of the inspector general's report and asked them to step up monitoring for suspicious behavior.

The department also convened a task force on the topic and is considering regulatory changes to help schools combat financial-aid fraud, said Sara Gast, a spokeswoman for the Department of Education.

At Rio Salado, officials have made changes in their application process as a result of the recent fraud cases, said Ryan Chase, the college's associate dean of student affairs. Since August, new students who declare a program of study have had to verify their identities by providing scanned color copies of state-issued photo IDs. Proof of a high-school or GED diploma has to come directly from the student's high school or the agency that issued the GED diploma.

Rio Salado also won't process a student's financial aid until the person's identity and education history have been verified. Financial aid for the semester is not released to the student all at once, Chase said. A small portion is dispersed about one week before the semester and the rest in the second and third weeks of school after the faculty has verified that the student has participated in the class.

Even with the safeguards, though, detecting fraud can be a challenge.

"These (fraud) rings are becoming very sophisticated and very large. As a result of that, you could have, I guess, a ringleader recruiting students over time," Chase said.

The Apollo Group, a for-profit company headquartered in Phoenix, is known in educational circles for having a sophisticated system for detecting potential fraud. Four people are dedicated to fraud detection and prevention, and employees are trained to watch for suspicious behavior. The company also is able to track e-mails to see if different e-mail addresses originate from the same computer, which can be a sign that one person is representing multiple students.

Since 2009, the company's fraud-detection efforts have prevented \$110 million in federal funds from being dispersed, officials say.

Reach the reporter at 602-444-8072 or anne.ryman@arizonarepublic.com.

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