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Fraud Risks in Higher Education and How to Mitigate Them

What is the true cost of inaction? For higher education institutions, the stakes are monumental. Fraud, in its various forms, is infiltrating colleges across the U.S., costing tax dollars, damaging reputations, and creating barriers for legitimate students. From ghost students and fraudulent applications to advanced bot attacks, the cracks in the system are glaring—and growing.

So, how can institutions protect themselves and the students they serve? Let's explore the problem and, more importantly, the solutions to counteract these threats.

The Growing Threat of Fraud in Higher Education

Higher education institutions handle billions of dollars in financial aid annually. In fiscal year 2024, the U.S. Department of Education spent approximately $33.9 billion on higher education grants, with nearly $33 billion of that in the form of Pell Grants, which are need-based grants[1]. While such funding provides critical support, it also attracts a dangerous influx of fraudsters, both domestic and international.

The FBI has investigated numerous cases of financial aid fraud including in Maryland, South Carolina, Alabama, and California—all of which have resulted in significant financial losses. Though widespread statistics are difficult to come by, California's community colleges alone disbursed more than $7.6 million in aid to fraudulent identities over the first three quarters of 2024—up from $4.4 million for the entirety of 2023 and $2.1 million the year before (statewide reporting began in September 2021). It's now suspected that as many as one in four applicants to California's community colleges is fraudulent.[2]

These numbers mirror the striking nationwide increase in identity fraud over a similar period. While identity fraud among American consumers leveled off in 2023, specific categories such as synthetic identity fraud have reached record levels, growing by 38 percent between 2022 and 2023 in certain sectors.[3]

Key fraud tactics include:

Ghost students using fabricated or stolen identities to register for classes and claim financial aid, only to vanish.

Bots and AI-generated identities automating bulk fraudulent applications, overwhelming admissions systems.

Application manipulation, such as falsely reporting income or inventing dependents on Free Application for Federal Student Aid (FAFSA) forms to secure maximum aid.

Pell Grants and similar subsidies have become common targets, with the problem exacerbated by reduced verification standards that began during the COVID-19 pandemic. LexisNexis Risk Solutions reported that financial aid fraud was costing U.S. universities $100 million a year at that point, where it had cost about $10 million annually prior to 2020. From bots flooding applications to identity theft schemes, fraudsters are leveraging advanced technology to siphon resources away from legitimate students. But as fraud techniques evolve, so do the solutions, some of which now hinge on artificial intelligence (AI).[4]

Industry Challenges

Fraud affects colleges on multiple levels:

1. Administrative Strain

Fraudulent applications overload admissions and financial aid offices, forcing staff to divert focus from genuine student needs. Staff must differentiate between legitimate students and fraudsters—an exhaustive, manual process that is no longer viable at scale.

2. Financial Loss

Institutions incur liabilities due to fraud-related payouts, both in direct losses and in penalties requiring them to return disbursed funds. Even successful restitution efforts rarely recoup the full financial damage.

3. Educational Disruption

Fraud compromises course availability. Fraudulent enrollments fill up spots in classes, leaving legitimate students unable to register. This leads to delayed graduations and increased emotional stress for affected students, who may watch their career aspirations slip further away.

4. Reputational Damage

Persistent fraud issues can tarnish a college's public image and trustworthiness, eroding confidence among students, stakeholders, and funding bodies.

With these challenges in mind, higher education institutions must take proactive, multi-layered measures against these evolving threats.

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Building Resilience with a Multi-Layered Fraud Defense

Fraud prevention is neither simple nor unilateral. It demands a comprehensive, multi-faceted strategy to mitigate risks without overly burdening legitimate students or administrative teams.

1. Digital Identity Authentication

By leveraging advanced digital identity solutions, institutions can proactively validate the legitimacy of applicants. Tools that analyze device behavior, geolocation anomalies, and Virtual Private Network (VPN) patterns can flag high-risk submissions automatically, reducing manual verification tasks.

2. AI-Powered Email Risk Assessment

A single email address can reveal a lot. Risk-scoring systems evaluate email history, domain reliability, and associations with fraud to help discern legitimate applicants from vast networks of fictitious identities.

3. Enhanced Identity Verification

LexisNexis Risk Solutions leverages machine learning to authenticate applicants empowered by insights on 285 million identities. Quick checks on name, address, and phone associations can instantly red-flag synthetic or stolen profiles—without adding friction to the legitimate applicant's experience.

4. Step-Up Authentication

When higher risks are detected, schools can implement supplemental checks like one-time passcodes, biometrics, or knowledge-based authentication. This adaptable approach minimizes interruptions for everyday users while acting as an impenetrable barrier for fraud attempts.

These steps, though technical, can integrate into existing systems for streamlined operation, offering vital layers of protection without compromising efficiency.

Real-World Impacts

Ghost students not only siphon financial aid but also create cascading effects. For instance:

An overloaded admissions system means slower service for real students, potentially delaying their access to financial resources and essential documentation.

Empty chairs in classrooms once fraudulent applicants are removed disrupt course continuity, particularly in smaller institutions serving niche degree paths.

But the damage doesn't end there. One example from a Southeast State revealed an individual who manipulated 60 identities over 10 years, causing millions of dollars in damages before law enforcement intervened. While penalties were levied, the ripple effects onto affected students and administrative teams were lasting.

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Institutions Fighting Back

Fraud risks in higher education are dynamic, and ghost students, fraudulent applications, and bot-driven attacks are the new frontier of institutional threats. Without decisive action, colleges risk financial loss, administrative bottlenecks, and denial of education to students who need it most.

Don't leave your campus vulnerable. Contact us today to schedule a consultation and explore custom solutions tailored to your institution's needs.

Security is essential to higher education institutions and prioritizing a people-first approach while simultaneously preventing cyber threats is critical. Identity security and assurance isn't just a one-time transaction or event. It's ongoing, with a past, present, and future — constantly evolving. It is essential to have a comprehensive, long-term perspective on identity.

LexisNexis EssentialID™ is an award-winning, seamless, and secure identity orchestration platform providing colleges multi-layered, fraud-resistant identity verification, third-party data integration and decision-making capabilities.

Balance Access and Trust

Generate more reliable and actionable outcomes through our **99.99% linking precision rate**.

Protect your college from risk by leveraging our **adherence to strict ethical standards in data use and privacy** and **proven expertise in regulatory compliance**.

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Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global identity verification provider of information-based analytics and decision tools for professional and business customers.

1. https://www.pewresearch.org/short-reads/2025/03/18/what-the-data-says-about-the-us-department-of-education/
2. "Financial Aid Fraud Is Growing at California's Community Colleges," EdSource, November 13, 2024; Adam Echelman, "'Getting Significantly Worse': California Community Colleges Are Losing Millions to Financial Aid Fraud," CalMatters, April 1, 2024. Jump back to footnote 2 in the text.
3. "Americans Reported Losing a Record $10 Billion to Scams and Frauds in 2023," AARP, February 9, 2024; "Synthetic Identity Fraud: How to Detect and Prevent It," Plaid, May 1, 2024.
4. https://www.govtech.com/education/higher-ed/how-ai-is-combating-enrollment-fraud-at-community-colleges