

1 Presented to the Court by the foreman of the  
2 Grand Jury in open Court, in the presence of  
3 the Grand Jury and FILED in The U.S.  
4 DISTRICT COURT at Seattle, Washington.

5 MAY 12 2010  
6 BRUCE RIFKIN, Clerk  
7 By [Signature] Deputy

8 UNITED STATES DISTRICT COURT  
9 WESTERN DISTRICT OF WASHINGTON  
10 AT TACOMA

11 UNITED STATES OF AMERICA,  
12 Plaintiff,

13 v.

14 SHEILA MULLINEAUX,  
15 JESICA MCMULLIN,  
16 MISTY LEE, and  
17 JENNIFER BYERS,

18 Defendants.

**CR NO 10 5314 RJB**

INDICTMENT

19 The Grand Jury charges that:

20 COUNTS 1 - 7  
21 (Mail Fraud)

22 **A. Introduction**

23 At all times material to this Indictment:

24 1. The Department of Education (ED) is a department of the United States  
25 Government established to ensure equal access to education and to promote educational  
26 excellence throughout the United States. One of the primary responsibilities of the ED is  
27 oversight of the administration of Title IV Federal Student Assistance (FSA) Programs  
28 authorized by the Higher Education Act of 1965. Under the authority of Title 34 of the  
Code of Federal Regulations (CFR), Parts 600 and 668, the ED is responsible for  
determining the eligibility of institutions to participate in FSA Programs, as well as  
ensuring that those eligible institutions properly execute their fiduciary responsibilities in

1 administering the programs. As part of these functions, the ED funds and administers  
2 federal student assistance programs to assist qualified student borrowers in obtaining  
3 college educations.

4 2. Pursuant to 34 CFR Part 600, to be eligible to participate in FSA programs,  
5 a school must, among other requirements, be accredited by a federally recognized  
6 accrediting organization also recognized by the Secretary of Education, and must enter  
7 into a Program Participation Agreement (PPA) with the ED. The school is also required  
8 to have been in existence for at least two years. 34 CFR Part 600 further requires that  
9 once a school is deemed eligible to participate in FSA programs, it must continually  
10 comply with eligibility requirements. If a participating school fails to meet the  
11 requirements, it must notify the ED within 30 days.

12 3. The ED offers a number of financial aid programs to qualified students. A  
13 student must meet the following criteria to be eligible to receive federal financial aid:

- 14 a. Have financial need, except for some loan programs.
- 15 b. Have a high school diploma or a General Education Development  
16 (GED).
- 17 c. Be enrolled or accepted for enrollment as a regular student working  
18 toward a degree or certificate in an eligible program.
- 19 d. Be a U.S. citizen or an eligible non-citizen.
- 20 e. Have a valid Social Security Number.
- 21 f. Make satisfactory academic progress.
- 22 g. Sign a statement on the Free Application for Federal Student Aid  
23 (FAFSA) certifying that federal student aid will only be used for  
24 educational purposes.
- 25 h. Sign a statement on the FAFSA certifying that no federal student  
26 loans are in default status and that no money was owed back on a  
27 federal student grant.
- 28 i. Register with the Selective Service, if required.

1           4.       The Federal Pell Grant Program provides gift aid to eligible students in  
2 order to assist them with their education. This gift aid is in the form of a grant and is not  
3 required to be repaid. Pell Grants are awarded to students who have not yet earned a  
4 bachelor or professional degree. Pell Grants are awarded to students who have a  
5 demonstrated financial need. The ED program regulations specify eligibility  
6 requirements and application procedures for students. The institution and its officers,  
7 acting as fiduciary agents, disburse grant payments received for the ED to the eligible  
8 student beneficiaries.

9           5.       Loans, unlike grants or work-study, are borrowed money that must be  
10 repaid, with interest. There are several types of loans, including Stafford Loans for  
11 undergraduate or graduate and professional students made through one of two ED  
12 programs. The Stafford Loan program was authorized by Title IV of the Higher  
13 Education Act of 1965, as amended. There are two types of Stafford Loans, (1) William  
14 D. Ford Federal Direct Student Loan Program, commonly referred to as Direct Stafford  
15 Loans or Direct Loans; and (2) Federal Family Education Loan (FFEL) Program,  
16 commonly referred to as FFEL Stafford Loans or Federal Stafford Loans.

17           6.       The FFEL Program is a loan program where the funds are lent to the student  
18 from a bank, credit union, or other lender that participates in the FFEL Program. On  
19 behalf of eligible student borrowers, educational institutions may receive and disburse  
20 FFEL funds from a commercial (non-ED) lender.

21           7.       Subsidized Stafford Loans are awarded to students who demonstrate  
22 financial need. Because the ED subsidizes the interest, borrowers are not charged interest  
23 while they are enrolled in school at least halftime and during grace and deferment periods.

24           8.       Unsubsidized Stafford Loans are awarded to students regardless of financial  
25 need. Borrowers are responsible for paying the interest that accrues during any period.

26           9.       Consolidation Loans allow any borrower to combine one or more federal  
27 education loans into a new Direct Loan or FFEL to facilitate repayment. The process of  
28 consolidating loans usually does not directly involve the school - the consolidating lender

1 purchases qualifying student loans from other lenders and combines them into a single  
2 loan.

3 10. After a student completes the FAFSA, the student must complete a Federal  
4 Stafford Loan Application and Promissory Note, and take the completed form to the  
5 school they plan to attend. After the school completes its portion of the application, the  
6 student or the school, on the student's behalf, must send the application to the lender for  
7 evaluation. The loan is insured by the state or private nonprofit guaranty agencies that are  
8 reimbursed by the federal government for all or part of the insurance claims paid to  
9 lenders. This government guarantee replaces the collateral or security usually required  
10 with long-term consumer loans.

11 11. To start the financial aid process, a student completes and submits a FAFSA  
12 via the FAFSA website. The submitted application is received by the Central Processing  
13 System (CPS). The CPS evaluates the FAFSA application information submitted by the  
14 student using the appropriate methodology to produce the Estimated Family Contribution  
15 (EFC), and also performs data matching with various other Federal Agencies to confirm  
16 eligibility requirements. The CPS electronically issues an Institutional Student  
17 Information Record (ISIR) to the schools the student listed on the FAFSA.

18 12. At all times material herein, in order to electronically sign the FAFSA, each  
19 applicant was assigned a unique PIN number by the ED. The applicant would apply for a  
20 PIN number through the PIN website ([pin.ed.gov](http://pin.ed.gov)). The applicant then waited for the PIN  
21 application to be processed, and the PIN to be sent to them by email or postal mail. They  
22 could then return to the FAFSA on the Web and sign the application with the PIN.

23 13. At least 30 percent of all FAFSAs are selected by the ED through a random  
24 and automated process called Verification. Verification is the ED's means of testing the  
25 accuracy of the information submitted on FAFSAs and by doing so ensuring the integrity  
26 of the student financial aid programs. Schools are authorized to collect certain  
27 documentation, for review, in order to complete this process. If the information  
28 submitted conflicts with the information provided on a FAFSA, schools are authorized,

1 and obligated, to make a correction to the FAFSA before financial aid eligibility can be  
2 accurately determined and funds awarded. The Secretary of Education has determined  
3 that the following information is subject to verification: income; household size; marital  
4 status; public assistance benefits; child support; foreign income; and other untaxed  
5 income.

6 14. To ensure that ED funds are used for education purposes, the financial  
7 assistance funds are sent from ED, or the commercial lender, directly to the institutions  
8 where the students are enrolled. ED funds are then held by the institutions in trust for the  
9 benefit of the students. Institutions have the authority to apply the loan and grant funds  
10 received from the ED to a student's tuition account and to disburse any excess funds to  
11 the student.

12 15. Pursuant to 34 CFR 682.604(c)(4), a school may not credit a student's  
13 account or release the proceeds of a loan to a student who is on a leave of absence. Thus,  
14 even if a student is enrolled in a particular school, they are not entitled to receive the  
15 proceeds of a loan unless they are an active student.

16 16. The Northwest Education Loan Association (NELA) is a non-profit  
17 guaranty agency that works in partnerships with schools, banks, and other lending  
18 institutions to help students continue their education. NELA administers the FFEL  
19 Program and guarantees the loans against default.

20 17. Pursuant to 34 CFR 685, should a school that was previously approved by  
21 the ED to participate in Title IV Federal Student Loan programs, cease operations, all  
22 students currently attending the school who have received Title IV Federal Student Loans  
23 will have their loans discharged - the loans will be forgiven - based on the following  
24 conditions:

- 25 a. The student was enrolled at least 90 days prior to the closure;  
26 b. The student had not transferred to another school with transferable  
27 credits;

1 c. The student did not participate in an approved “teach-out program,” a  
2 program that allows students attending a school that is in the process of closing to find  
3 another educational institution to finish their degrees.

#### 4 CROWN COLLEGE

5 18. Crown College (Crown) was a privately owned and operated proprietary  
6 school located in Tacoma, Washington. Crown offered Associate of Science degrees in  
7 Criminal Justice, Paralegal Studies, and Business Administration and Bachelor of Science  
8 degrees in Business Administration.

9 19. Crown classes were operated almost completely online via computer.  
10 Crown’s students participated in their online classes by logging on to “classrooms” they  
11 had previously registered for through the school’s website. While there were physical  
12 classrooms located within the buildings Crown operated, the vast majority of the teaching  
13 occurred on-line.

14 20. Crown was accredited on July 1, 1979, by the Accrediting Commission of  
15 Career Schools and Colleges of Technology (ACCSCT), an independent accrediting  
16 agency, as required by the Department of Education (DOE) for participation in its Federal  
17 funding programs. The school lost its ACCSCT accreditation on July 27, 2007, and lost  
18 its eligibility to distribute federal financial aid under Title IV of the Federal Student  
19 Assistance (FSA) Programs on July 30, 2007. On August 10, 2007, Crown officially  
20 closed.

21 21. During the charged time period, Defendant SHEILA MULLINEAUX was  
22 Vice President at Crown; Defendant JESICA MCMULLIN was the Admissions Director  
23 and Registrar; Defendant MISTY LEE was the Financial Aid Director; and JENNIFER  
24 BYERS was the Fiscal Manager and Bookkeeper.

25 22. During all times that Crown was in operation, employees of the college  
26 were charged for tuition, but subsequently would receive a full waiver for the costs of  
27 their tuition as students. Thus, employees of CROWN that were enrolled as students had  
28 no education expenses related to tuition.

1 **B. The Scheme and Artifice to Defraud**

2 23. Beginning at a time unknown, but by no later than on or about  
3 December 13, 2006, and continuing through on or about April 1, 2007, at Pierce County,  
4 within the Western District of Washington and elsewhere, SHEILA MULLINEAUX,  
5 JESICA MCMULLIN, MISTY LEE, and JENNIFER BYERS (hereinafter, “the  
6 Defendants”), and others known and unknown, did knowingly and willfully devise and  
7 execute, and aid and abet, a scheme and artifice to obtain money from agencies and  
8 departments of the United States by means of false and fraudulent pretenses,  
9 representation, and promises, well knowing at the time such pretenses, representations,  
10 and promises were false when made.

11 24. The essence of the scheme and artifice to defraud was to fraudulently obtain  
12 money and funds from the United States, by falsely representing themselves and others as  
13 enrolled students at Crown College, and by falsely representing themselves as students  
14 further advanced in their studies than they actually were, and thereafter applying for  
15 federal student loans and Pell Grants as described in paragraphs 3-10.

16 **C. The Manner and Means of the Scheme and Artifice**

17 25. It was part of the scheme and artifice to defraud that the Defendants applied  
18 for federally insured financial aid and Pell Grants, and aided and abetted others in  
19 applying for federally insured financial aid and Pell Grants, believing that Crown College  
20 would be ceasing operations in the near future, thereby relieving the Defendants of their  
21 obligations to repay the loans, as per 34 CFR 685. Thus, Defendant’s application for  
22 federally insured financial aid and Pell Grants were fraudulent in that Defendants did not  
23 intend to use the student aid only for educational purposes, as certified in their FAFSA,  
24 but rather believed and intended that the student aid proceeds would be available for their  
25 own noneducational benefit and purposes after cessation of operations at Crown.

26 26. It was further part of the scheme and artifice to defraud that the Defendants  
27 fraudulently and unlawfully caused, and attempted to cause, federally insured financial  
28

1 aid, in the form of Subsidized and Unsubsidized Stafford Loans and Pell Grant funds, to  
2 be disbursed to themselves and others, totaling approximately \$65,750.

3 27. It was further part of the scheme and artifice to defraud that each of the  
4 Defendants completed, or caused to be completed a FAFSA, signing a statement  
5 certifying that the federal student aid will only be used only to pay the cost of attending an  
6 institution of higher education.

7 28. It was further part of the scheme and artifice to defraud that the Defendants,  
8 each applied for federal financial aid for attendance at CROWN, when they were not  
9 enrolled as students at CROWN or did not intend on enrolling as students at CROWN.

10 29. It was further part of the scheme and artifice to defraud that the Defendants  
11 caused and attempted to cause others, including but limited to S.M., B.H., and J.D., to  
12 apply for loans and grants for attendance at CROWN, knowing full well that they weren't  
13 enrolled students.

14 **D. Execution of the Scheme and Artifice to Defraud**

15 30. On or about the dates set forth below, for the purpose of executing and  
16 attempting to execute the above described scheme and artifice to obtain money and  
17 property, and attempting to do so, SHEILA MULLINEAUX, JESICA MCMULLIN,  
18 MISTY LEE, and JENNIFER BYERS, along with others known and unknown, did  
19 knowingly cause to be delivered by mail and private and commercial carrier certain  
20 mailings, with each mailing described below constituting a separate and distinct count  
21 under the mail fraud statute as identified below:

<u>Count</u>	<u>Date</u>	<u>Defendant</u>	<u>To</u>	<u>Description</u>
22 1	12/15/06	LEE	Sallie Mae	FFEL Stafford Subsidized & Unsubsidized Loans MPN
23 2	12/15/06	LEE	Sallie Mae	J.D. FFEL Stafford Subsidized & Unsubsidized Loans MPN
24 3	12/15/06	MCMULLIN	Sallie Mae	FFEL Stafford Unsubsidized Loan MPN
25 4	12/15/06	MCMULLIN	Sallie Mae	S.M. FFEL Stafford Unsubsidized Loan MPN



1	5	12/15/06	MULLINEAUX	Sallie Mae	FFEL Stafford Unsubsidized Loan MPN
2	6	12/15/06	MULLINEAUX	Sallie Mae	B.H. FFEL Stafford Subsidized & Unsubsidized Loans MPN
3					
4	7	12/15/06	BYERS	Sallie Mae	FFEL Stafford Subsidized & Unsubsidized Loan MPN
5					

6 All in violation of Title 18, United States Code, Section 1341 and Section 2.

7 **COUNT 8**  
8 **(Financial Aid Fraud)**

9 31. Between on or about December 13, 2006, and on or about December 26,  
10 2006, within the Western District of Washington, and elsewhere, MISTY LEE knowingly  
11 and willfully misapplied, stole, and obtained by fraud and false statement, and attempted  
12 to misapply, steal and obtain by fraud and false statement, federal student financial aid  
13 funds in excess of \$200, which funds were provided and insured under Subchapter IV of  
14 Chapter 28 of Title 20 and Part C of Subchapter 1 of Chapter 34 of Title 42, United States  
15 Code; in that, MISTY LEE applied for and obtained subsidized and unsubsidized Stafford  
16 Loans in the total amount of approximately \$6,625, on behalf of student loan applicant,  
17 J.D., when in fact, as MISTY LEE then well knew, J.D. had no intention of using those  
18 loan funds for educational purposes, as required.

19 All in violation of Title 20, United States Code, Section 1097(a) and Title 18,  
20 United States Code, Section 2.

21 **COUNT 9**  
22 **(Financial Aid Fraud)**

23 32. Between on or about December 13, 2006, and on or about December 26,  
24 2006, within the Western District of Washington, and elsewhere, JESICA MCMULLIN  
25 knowingly and willfully misapplied, stole, and obtained by fraud and false statement, and  
26 attempted to misapply, steal and obtain by fraud and false statement, federal student  
27 financial aid funds in excess of \$200, which funds were provided and insured under  
28 Subchapter IV of Chapter 28 of Title 20 and Part C of Subchapter 1 of Chapter 34 of Title  
42, United States Code; in that, JESICA MCMULLIN applied for and obtained

1 subsidized and unsubsidized Stafford Loans in the total amount of approximately \$6,625,  
2 on behalf of student loan applicant, S.M., when in fact, as JESICA MCMULLIN then  
3 well knew, S.M. had no intention of using those loan funds for educational purposes, as  
4 required.

5 All in violation of Title 20, United States Code, Section 1097(a) and Title 18,  
6 United States Code, Section 2.

7  
8 **COUNT 10**  
**(Financial Aid Fraud)**

9 33. Between on or about December 13, 2006, and on or about December 26,  
10 2006, within the Western District of Washington, and elsewhere, JENNIFER BYERS  
11 knowingly and willfully misapplied, stole, and obtained by fraud and false statement, and  
12 attempted to misapply, steal and obtain by fraud and false statement, federal student  
13 financial aid funds in excess of \$200, which funds were provided and insured under  
14 Subchapter IV of Chapter 28 of Title 20 and Part C of Subchapter 1 of Chapter 34 of Title  
15 42, United States Code; in that, JENNIFER BYERS applied for and obtained subsidized  
16 and unsubsidized Stafford Loans in the total amount of approximately \$10,500, when in  
17 fact, JENNIFER BYERS had no intention of using those loan funds for educational  
18 purposes, as required.

19 All in violation of Title 20, United States Code, Section 1097(a) and Title 18,  
20 United States Code, Section 2.

21  
22 **COUNT 11**  
**(Financial Aid Fraud)**

23 34. On or about March 29, 2007, within the Western District of Washington,  
24 and elsewhere, SHEILA MULLINEAUX knowingly and willfully misapplied, stole, and  
25 obtained by fraud and false statement, and attempted to misapply, steal and obtain by  
26 fraud and false statement, federal student financial aid funds in excess of \$200, which  
27 funds were provided and insured under Subchapter IV of Chapter 28 of Title 20 and Part  
28 C of Subchapter 1 of Chapter 34 of Title 42, United States Code;

1 in that, SHEILA MULLINEAUX applied for and obtained subsidized and unsubsidized  
2 Stafford Loans in the total amount of approximately \$5,250, when in fact, SHEILA  
3 MULLINEAUX had not received her high school diploma or General Equivalency  
4 Diploma (GED), as required.

5 All in violation of Title 20, United States Code, Section 1097(a) and Title 18,  
6 United States Code, Section 2.

7  
8 DATED this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

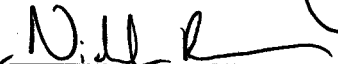
9  
10 A TRUE BILL

11 DATED: *May 12 2010*  
12 *Signature of Foreperson redacted pursuant*  
13 *to the policy of the Judicial Conference of the*  
14 *United States.*

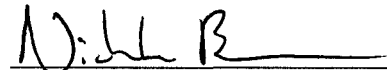
15 \_\_\_\_\_  
16 FOREPERSON

17 

18 JENNY A. DURKAN  
19 United States Attorney

20 

21 LAWRENCE LINCOLN  
22 Assistant United States Attorney

23 

24 NICHOLAS W. BROWN  
25 Assistant United States Attorney  
26  
27  
28