

# ASLEEP AT THE WHEEL:

How the Federal Charter Schools Program  
Recklessly Takes Taxpayers  
and Students for a Ride.



# Acknowledgements

NPE Executive Director, **Carol Burris**, and journalist **Jeff Bryant** were the authors of this report. We thank them for their extensive research and analysis.

Thank you to **Leigh Dingerson** for her skilled and careful editing of the report, as well as her advice regarding structure and content.

Thanks also to the Network for Public Education's Director of Communications, **Darcie Cimarusti**, who designed this report. **Darcie Cimarusti** and **Marla Kilfoyle** of NPE also contributed to research efforts.

We are also grateful to researcher and scholar **Roxana Marachi** for her summary of the problems associated with the CMO known as Rocketship.

The report would not have been possible without the effort and commitment of the Board of Directors of the Network for Public Education (NPE), with special thanks to **Diane Ravitch**, President of NPE. Diane generously gave her support, guidance and advice throughout the writing of this report.

Finally, thank you to all of our generous donors who make our work in support of public education possible. This report was funded solely by the Network for Public Education.

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# Executive Summary

In 2015, the U.S. Department of Education took an unprecedented step--it told the state of Ohio to put on hold the \$71 million that it gave the state for the purpose of opening more charter schools. What is even more remarkable is that the cut-off of funds was championed by Ohio Senator Sherrod Brown, who expressed concern about the charter fraud and abuse that was happening in his state.

Brown's mistrust was well founded. Shortly after the announcement, Innovation Ohio and the Ohio Education Association issued a joint report showing that more than one in three schools that had received federal grants from the U.S. Department of Education's Charter Schools Program (CSP) had never opened, or opened and soon closed. The report also noted that of the remaining grant-funded charters, 63 percent, were among the lowest performing schools in the state.

Was the Ohio scandal a unique event, or was it typical? That is the question this investigative report sought to answer, and after two months of analysis, the answer is clear. The Ohio scandal was far from unique. We found that it is likely that as many as one third of *all* charter schools receiving CSP grants never opened, or opened and shut down. In fact, the failure rates for grant-awarded

charter schools in California has reached nearly four in ten.

The federal outlays we examined are not modest expenditures amounting to little more than rounding errors. In its 2015 analysis, CSP stated that since its inception in 1994, the program had provided \$3.3 billion to fund the startup, replication, and expansion of charter schools, creating 40 percent of operational public charter schools in the nation. We estimate that program funding has grown to well over \$4 billion. That could bring the total of the potential waste to around \$1 billion.

The waste of public dollars on closed charter schools is not the only concern. Of the grant recipients that manage to stay open, we uncovered extensive evidence that raises serious questions as to whether or not these schools are truly "high-quality," meeting the CSP goal of providing equitable access for disadvantaged students.

Through detailed examination of CSP's application process, and by comparing claims made by charter grant applicants to information on state databases and school websites, we found numerous examples of federal tax dollars being mispent due to an inattentive process that routinely accepts applicants' claims without scrutiny.



In short, despite the scandal of Ohio and numerous critical reports by their own Office of Inspector General, the U.S. Department of Education has been asleep at the wheel when it comes to the management and supervision of hundreds of millions of taxpayer dollars every year.

Below is a summary of our findings:

**1. Hundreds of millions of federal taxpayer dollars have been awarded to charter schools that never opened or opened and then shut down. In some cases, schools have received federal funding even before securing their charter.**

Our investigation barely skimmed the surface of the hundreds of charter school grant recipients that never opened or opened but then closed. Among the scores of schools examined, we found a Seattle private school that converted to a charter with grant money only to shortly flip back to a private school, leaving 90 economically disadvantaged children scrambling to find a new school mid-year. We found two Delaware charter schools started by the same financial firm that won multiyear grants two years apart from each other. One opened its doors but closed midyear, and the second never opened at all. We found a Hawaii charter that won a CSP award in 2016 that has yet to find a location, while its website continues to say it is accepting new enrollees. Of the schools awarded grants *directly* from the department between 2009 and 2016, nearly one in four either never opened or shut its doors. The CSP's own analysis from 2006-2014 of its direct and state pass-through funded programs found that nearly one out of three awardees were not currently in operation by the end of 2015.

**2. The CSP's grant approval process appears to be based on the application alone, with no attempt to verify the information presented. Schools have been approved for grants despite serious concerns noted by reviewers.**

The CSP's review process to award grants does not allow the verification of applicants' claims, thus leading to what award-winning, *New York Times*

journalist Michael Winerip referred to as an "invitation for fiction writing." This process resulted in numerous examples of awardees that claim they seek to enroll high percentages of minority and disadvantaged students, even while their programs and policies are designed to draw from advantaged populations. Finally, we found instances where achievement and/or demographic data on applications were cherry-picked or massaged, with reviewers instructed to accept what was written as fact.

**3. Grants have been awarded to charter schools that establish barriers to enrollment, discouraging or denying access to certain students.**

Multiple schools we examined enroll smaller percentages of students with disabilities and students who are English language learners than the surrounding schools. Some appear to be designed to encourage "white flight" from public schools. Thirty-four California charter schools that received CSP grants appear on the ACLU of Southern California's list of charters that discriminate—in some cases illegally—in admissions, and 20 CSP funded Arizona charters appear on a similar list created by the Arizona ACLU. One Pennsylvania charter receiving multiple grants totaling over one million dollars from CSP states on its website that its programs are "limited to students with mild handicaps."

**4. Recommendations by the Office of the Inspector General have been largely ignored or not sufficiently addressed.**

We reviewed numerous OIG audits that found significant concerns over how CSP money is spent and about the general lack of monitoring the Department carries out to ensure those funds contribute to the intended goals of the grants. Each audit includes specific recommendations to correct this lack of oversight. But not only is there little evidence the department has adopted any of these recommendations; the current Secretary has denied responsibility for oversight, believing that it falls outside the federal government's



purview—even though this is a federal grants program.

**5. The department does not conduct sufficient oversight of grants to State Entities or State Education Agencies, despite repeated indications that the states are failing to monitor outcomes or offer full transparency on their subgrants.**

Although the vast majority of public charter school grants are awarded to state education agencies (SEAs), our investigation reveals that the Department has shown little oversight when SEAs pass that funding along directly to individual charters or charter organizations as subgrants. We found a continuing record of subgrantee schools that never opened or closed quickly, schools that blatantly discriminate in their discipline, curricular, and enrollment practices, schools that engage in outright fraud as well as schools that engage in related-party transactions that result in private individuals and companies pocketing huge sums of money at taxpayer expense.

**6. The CSP’s grants to charter management organizations are beset with problems including conflicts of interest and profiteering.**

The Office of the Inspector General’s 2016 audit of CSP funded CMO’s and/or their related schools found that of the 33 schools they reviewed, 22 had one or more of the following: conflicts of interest between the CMO and the charter, related-party transactions and insufficient segregation of duties. We found troubling examples of CMOs that received massive grants that engaged in practices that push-out low-performing students, violate the rights of students with disabilities and cull their student bodies through policies, programs and requests for parental donations.

**7. Under the current administration, while Congressional funding for the CSP rises, the quality of the applications and awardees has further declined.**

Based on our review of grant awards to SEAs and non-SEAs in 2017 and 2018, we contend the quality of the applications and the receiving grantees are likely getting worse, and the department’s willingness to provide oversight has nearly disappeared, which may result in increased fraud, mismanagement and charter failure.

## **Recommendations**

Our investigation finds the U.S. Department of Education has not been a responsible steward of taxpayer dollars in its management of the CSP. Based on what we found, we believe it is likely that one billion dollars of federal “seed money” has been wasted on charters that never opened or shut their doors. We were equally dismayed to find that many of the CSP-funded charter schools that survived did not fulfill their stated mission, especially in regard to enrolling proportionate numbers of disadvantaged youth. As public dollars are pulled from public schools and a more disadvantaged student body is left behind, the students who attend their neighborhood school have fewer resources and greater challenges.

Finally we fear that the department’s indifference to accountability and its unwillingness to supervise the hundreds of millions of taxpayer dollars that flow through the program are likely to increase under the current Secretary who presses for choice for the sake of choice, regardless of the cost to the American taxpayers and the disruption it causes to children and families.

Therefore, we recommend that Congress end funding for new charter grants coming from CSP. We also recommend thorough audits of previous grant awards, steps to ensure grant awards still under term are being responsibly carried out and that misspent money is returned.

We cannot afford to continue to pump hundreds of millions of dollars into a program whose stewards are clearly asleep at the wheel.

# Introduction

During a June 2018 hearing before the U.S. House Education and Workforce Committee, Jonathon Phillip Clark, an Iraq War veteran and African-American parent with seven children in the Detroit public-school system, [described](#) his oldest daughter's troubling experience attending a charter high school. The school, *University Yes Academy*, promised academic courses and school programs it never delivered. The school had five principals in three years. An audit of the school could not account for \$300,000 of Title I funds. After the money went missing, the school switched to a different management firm run by the same person. Then the school's contract was transferred to a third management firm, which closed the school a week before classes were to start, leaving students and families stranded.

What Clark didn't explain, perhaps because he didn't know, is that his daughter's charter was considered a "high-quality" school by the federal government and worthy of receiving a federal grant. Some time prior to 2015, *University Yes Academy* was the recipient of an \$830,000 grant from the U.S. Department of Education's Charter Schools Program (CSP). CSP, according to [its website](#), "provides money to create new high-quality public charter schools, as well as to disseminate information about ones with a proven track record."

The CSP operates inside the department's Office of Innovation and Improvement and includes seven different funding streams. Two of these provide loans or credit enhancements for the purchase and renovation of charter school facilities. Two others provide technical support and dissemination of best practices among charter schools. Three programs—which are the focus of our analysis here—offer start-up funds or expansion dollars to prospective charter schools, existing schools or to charter management organizations (CMO). The program was established in 1994 and over its 25-year existence, has funded as many as 40 percent of charter schools across the country.

For over a decade, Congress has poured money into CSP at rates much higher than overall Education Department spending has increased. **We estimate that approximately \$4 billion federal tax dollars have been spent or allocated to start, replicate and expand charter schools.** Over the past four years, while funding for the department essentially flatlined, with an average increase of only 2.12 percent annually, funding for charter school grants surged, with an average yearly increase of 13.32 percent.

Last year, Congress [appropriated](#) \$440 million for the CSP, an increase of \$40 million. That 10 per-



cent increase is one of the largest of any education department program in the budget. Under the Every Student Succeeds Act, the grant program was expanded in a number of ways, including opening the grant competition to many more government agencies and charter school support organizations, doling out state grants much more frequently, and explicitly adding the competition for charter management organizations as federal education law.

Yet, while *University Yes Academy* was called on to account for what happened to the missing Title I money, the school was never called on to account for what it did with the grant money from CSP. In fact, none of the thousands of charters receiving grants from CSP are ever compelled to provide an account to U.S. taxpayers of how federal grant funds were spent.

Instead of providing that accounting, the management firm that closed *Yes Academy*, New Paradigm for Education, applied for and received a CSP CMO grant of \$5,084,100 in 2017. In its application, New Paradigm spoke highly of its success with another of its schools, *New Paradigm Glazer Academy*, a school which had actually closed in 2016. Yet, reviewers of New Paradigm's application gave the firm high marks for "the extent to which charter schools operated or managed by the applicant have not been closed," with one reviewer remarking, "there have been no reported issues of noncompliance, closure, and statutory and regulatory compliance with New Paradigm schools." In 2018, New Paradigm announced plans to double the number of students it serves in the next two years, despite the firm running a \$546,834 deficit in 2016 and a "similar loss" in 2017.

CSP has been the subject of numerous critical reports by the department's own Office of Inspector General (OIG), which have raised significant concerns over how CSP grant money is spent, as well as the general lack of monitoring the department conducts to ensure those funds contribute to the intended goals of the program. In 2015, the Center for Media and Democracy (CMD)

published a report, based on records obtained through open records requests, in which it found key information was "severely lacking" on how federal funds were spent on charters. The report identified hundreds of schools that received federal money but never opened their doors or quickly closed after brief periods of operation. The report likened the CSP grant program to a "black hole."

Two months after the CMD report appeared, CSP released a dataset showing all grants awarded between school-years 2006-07 and 2013-14, with information on grants given to start-up, replicate, and expand charter schools. The dataset included grants awarded to individual schools, to State Education Agencies (SEAs), and to charter management organizations (CMOs).

CSP said the grants "facilitated the creation of over 2,600 charter schools that were operational as of SY 2013-14." According to the dataset, approximately 430 additional charter school grant recipients were closed by SY 2013-14. And approximately 699 additional grantees were considered "prospective schools"—cases where an operator planned for, but had not yet opened, a school. So, by the department's calculations, of the 3,729 charter schools receiving CSP grants between school-years 2006-07 and 2013-14, about a third—1,129 schools—were closed, never opened, or not yet operational by the end of SY 2013-14.

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As the following report shows, the department has likely learned very little if anything from the flaws in the federal charter schools grant program—even as that program expands.

CSP's analysis also found that, over the eight school years accounted for, the average grant award per *open* charter school, as of SY 2013-14, was \$461,813. What the analysis doesn't provide is an average award amount for the charters that never opened or opened and then quickly closed.

If that average award applies to those charters as well, it would mean that \$198,579,590 of federal tax money was wasted on charter schools that were no longer in operation as of SY 2013-14, and perhaps as much as \$322,807,287 could be at risk on “prospective schools.” Even after CSP’s analysis, however, those schools continued to close. We found that 39% percent of the California charter schools in that CSP dataset had either never opened or shut their doors by 2019.

CSP’s explanation for the high cost of failure was, “As with any start-up, school operators face a range of factors that may affect their school’s opening. And as with any provider of start-up capital, the department learns from its investments.”

As the following report shows, the department has likely learned very little if anything from the flaws in the federal charter schools grant program—even as that program expands.

While congressional appropriations to the CSP continue to climb, our investigation, the first of its kind, found that not only does grant money awarded to charters by the CSP continue to go to schools that never open or quickly close, but hundreds of millions of dollars have been provided to schools that don’t resemble “high quality” schools, including many that engage in exclusionary practices that keep some economically disadvantaged students, students of color, students with disabilities and English language learners (ELL) out. Through our detailed examination of the CSP’s application process, we found a system in which the program awards grants based on which schools can write (or hire someone to write) the most compelling narrative in its application, knowing that the facts they present will never be checked. As we compared information on state databases and school websites with application data, we found startling discrepancies between what charter applicants promised and what they ultimately delivered. Time and again, huge sums of grant money have been awarded to charter schools that have inadequate business plans, discriminatory enrollment practices, or no

evidence of strong demand for the school from the surrounding community.

### Three Funding Streams Under Scrutiny

The CSP program was established in 1994 as a way to kick-start the creation of new charter schools, as the independently-managed schools were being legalized and licensed across the country. Over its 25-year existence, the U. S. Department of Education estimates that the program has offered federal dollars to as many as 40 percent of charter schools. The CSP is authorized under the Elementary and Secondary Education Act (currently the Every Student Succeeds Act, Title IV Part C) and operates inside the department’s Office of Innovation and Improvement. The CSP includes seven different [funding streams](#). Two of these provide loans or credit enhancements for the purchase and renovation of charter school facilities. Two others provide technical support and dissemination of best practices among charter schools. Three programs—which are the focus of our analysis—offer start-up funds or expansion dollars to prospective charter schools, existing schools or to charter management organizations (CMO).

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Time and again, huge sums of grant money have been awarded to charter schools that have inadequate business plans, discriminatory enrollment practices, or no evidence of strong demand for the school from the surrounding community.

Those programs are:

- **Charter Schools Program State Entities (SE):** The SE grant program provides federal dollars to state departments of education or other approved “state entities” which then subgrant the funds to charter operators looking for seed money to create a new charter school. It is the largest of the CSP

funding streams. The SE program was originally limited to funding State Education Agencies (SEA)—departments of education within a state. The program was expanded in 2015 to allow other types of approved state entities to receive and subgrant the funds. For the purposes of this report, because the vast majority of the grants we address here went to state education departments, we refer to these as SEA grants unless referring to a non-state agency recipient in a post-2015 grant.

- **Charter Schools Program Non-State Educational Agencies (Non-SEA) (now referred to as Developer Grants):** The Non-SEA or Developer Grants allow individual charter schools to apply directly to the federal CSP for start-up funds in states where charter schools are permitted, but where the state has not applied for or received an SE/SEA grant.
- **Charter Schools Program Grants for Replications and Expansion of High-Quality Charter Schools (also known as CMO grants):** The CMO grant stream provides funds to non-profits, including charter management organizations, to replicate and expand high-quality charter schools. This program began in 2010.

Over the course of two months, we analyzed the three programs using the following publicly available records:

- The lists of states that were awarded grants under the SEA program. We critiqued that list by describing the troubling history of several of the states that received funding.
- 2009-2018 non-SEA Developer Grant awardee charter schools on the department's website. We cross-checked that list to ascertain whether or not the grantee

schools were open and functioning.

- Selected applications and ratings for Developer Grants, for a close review to check the data that was submitted against state websites and the websites of the schools.
- All program audits of the Office of Inspector General and the department's responses to those reports.
- Because it is the state with the greatest number of charter schools, we looked at the department's list of California charter schools that received funding from 2007-2014, primarily through the SEA program. Using the California State Education Department website, we determined if the school ever opened, or opened and subsequently closed. We chose several of the closed schools for review.
- The list of charter management organizations that received grants from the CSP. We chose one large chain that recently received the largest single grant in the history of the program, and one smaller chain, for an in-depth analysis of their applications and ratings and the comparative data about their component schools from the state websites. We looked at CMOs from the CMO grant program, as well as CMO-managed schools among SE/SEA grantees.

We found a troubling pattern of insufficient applicant review, contradictions between information provided by applicants and available public data, the gifting of funds to schools with inadequate financial and governance plans, a push-out of large grants to the states with little supervision by the department, and the waste of hundreds of millions of taxpayer dollars.

We were equally troubled by the department's responses (or lack thereof) to critical audits by the OIG and recommendations included therein. Finally, we provide evidence that the program's process for granting charter schools federal funds



is becoming even less discerning than it was prior to 2016.

At the end of this report you will find our formal recommendations. In short, we recommend that it is time to investigate where millions of dollars have gone and secure back for the public all unaccounted-for spending. American taxpayers have a right to demand that their tax dollars aren't wasted. Tax dollars that went to charter schools that never opened or quickly closed should not be considered the cost of doing business. And a program with a stated commitment to spread "high-quality" schools should not be a major funding source for schools that leave families in the lurch and promote discriminatory enrollment practices.

Congress should end new CSP grants even as it investigates past grants and grants in progress. In its responses to the OIG, the department argues that it does not have the capacity nor the authority to supervise spending on what it refers to as "its investments." If indeed all the capacity and authority rests with authorizers and state agencies, then it is those agencies that should provide what the department refers to as "start-up capital" for new charter schools and replications.

# Asleep at the Wheel

The federal Charter Schools Program is estimated to have handed out over \$4 billion in taxpayer dollars over the past 25 years for the purpose of expanding the number and size of charter schools. While the program touts its focus on “high quality” charter schools, our analysis suggests that the department has been focused more on proliferation and expansion and less on quality. Well over 1000 grants have been given to schools that never opened, or later closed for reasons of mismanagement, poor performance, lack of enrollment or outright fraud. The department does little to track or address these repeated failures. In addition, the department’s own Office of Inspector General has issued multiple reports on the program that warn of critical concerns and recommend specific action by the department to ameliorate those concerns. We find little evidence that the department has fully addressed those recommendations. Instead, appropriations continue to climb.

The present Secretary of Education, Betsy DeVos, believes that the promulgation of choice for its own sake is a public good, and that an education “marketplace” should be the ultimate decision-maker of how education is delivered, regardless of the cost to American taxpayers. She is a determined supporter of the Charter Schools Program and is likely to continue promote increasing in-

vestments in it. We believe there are ample reasons to justify a set of strong actions and safeguards.

This report offers seven reasons, backed by data and examples, that justify an immediate change of direction for the federal CSP.

## **1. Hundreds of millions of federal taxpayer dollars have been awarded to charter schools that never opened or opened and then shut down. In some cases, schools have received federal funding even before securing their charter.**

The U.S. Department of Education’s Charter Schools Program (CSP) non-SEA/Developer Grants program funds individual charter schools in states that have not applied for or received a larger grant under the SEA program (described above).

Between 2009 and 2016 alone, our analysis found 17 charter schools that were awarded grants through the Developer Grants program that never opened their doors. We found an additional nine schools that received funds from the program

and then shut down—either during or shortly after receiving all of their federal grant. Because approximately 100 schools were approved during those seven years, about one in every four schools funded by non-SEA program either failed to open or closed.

The number of charters that never opened or quickly shut down through the modest non-SEA program pales in comparison, however, to the number of non-functioning recipient schools when all three grant streams (SE/SEA, non-SEA and CMO grants) are considered. **The CSPs own 2015 analysis of charters funded from 2006-2014 found that nearly one out of three awardees were not currently in operation.**

The following are examples of schools that were financed by the non-SEA program that never opened, along with a summary of their applications with incomplete, misleading and/or false information.

### Examples of Schools That Never Opened After Receiving Federal Grant Monies

■ Charter schools are licensed to operate, or “authorized” by statutorily designated authorizing entities within the state. In 2011, the **Tikun Olam Hebrew Language Charter High School** was approved for a three-year \$600,000 grant from the non-SEA charter school fund. Yet, the New Jersey Commissioner of Education, the state’s only charter school authorizer, had rejected the school’s application three times due, in part, to misrepresentations that the school had made.

With the federal grant secured, Tikun Olam lead founder, Sharon Akman, emailed then-New Jersey Commissioner of Education Chris Cerf and attempted to use the federal grant as leverage to secure approval for her fourth application.

U.S. Department of Education spokesman Justin Hamilton  told a reporter  that the department does not require its grantees to have an approved charter in order to be eligible for federal grants.

The failure to secure approval to open is not a guarantee that federal funds won’t be disbursed, he indicated.

The charter school’s fourth application was denied, and it never submitted a fifth application. Through the help of a local Congressman, the federal money was eventually clawed back.

■ In 2015, the **Innovative Schools Development Corporation** received a three-year federal grant totaling \$609,000 to open the **Delaware STEM Academy** charter school. As the proposed CMO for the school, Innovative Schools Development Corporation was budgeted to receive \$247,500 of those federal grant funds for management fees, \$147,500 in the first year alone. The school promised in its  application  to enroll 250 students for 9th and 10th grade in September 2016 and to add 150 students each year for 9th grade thereafter from the high-needs student populations in the Wilmington and New Castle County area of Delaware. In June 2016, Delaware’s Charter School Accountability Committee and the State Secretary of Education both  recommended  that the school’s charter be revoked two months ahead of its planned opening, due to low enrollment of just 30 students and uncertain funding due to an over reliance on external grants. Local news reports on the demise of the school noticed that New Castle County already had a heavy concentration of charter schools—20 of 27 charter schools statewide. Yet in its  review of the application , the U. S. Department of Education’s reviewers complimented the application for its “detailed management plan including objectives, measures, targets” and including a full year for implementation.

### Examples of Schools that Closed After Receiving CSP Grants

Even if the funded charter school does open, that is no guarantee of success. We found eight charter schools funded by the non-SEA program that received in total \$3,681,204 from 2009-2014 that have since closed.

■ In 2013, CSP again awarded **Innovative Schools Development Corporation** a three-year start-up grant eventually totaling \$525,000, this time to open **Delaware Met Charter School** in Wilmington, DE. In the department's [review](#) of the school's application (the application itself is no longer available on the website), reviewers noted "there is no explanation on how the curriculum will be implemented and aligned with the standards for the state" and "the proposal did not include specific steps for implementing the program and did not describe how this would work with various student groups." The department approved the grant anyway. The school opened in August of 2015, but [was closed](#) just five months later, in January 2016. The state committee that recommended closing found the school struggled to maintain a safe campus, used lesson plans that didn't fit the state's academic standards, and was out of compliance on all 59 of its Individualized Education Plans for its students with disabilities. At this writing, the Innovative Schools Development Corporation website has been taken down and it is unclear whether the CMO still exists.

■ In 2014, **First Place Scholars Charter School** opened as Seattle's very first charter school with the financial help of a two-year federal CSP grant totaling \$400,000. The school, formerly a private school serving homeless and traumatized students, was a kindergarten through 5th grade school when it received the grant money. But before the grant ended, in the middle of the 2015-2016 school year, First Place fired its principal and reverted to a private school. At the end of that school year, the school cut all its 2nd-5th grade classes, leaving families of 90 children [scrambling](#) to find new schools. In the department's [technical review](#) (the application has disappeared from the site), reviewers awarded the school 20 of possible 22 points for Quality of Personnel and three of possible three points for Adequacy of Resources.

■ In 2013, **Path Academy** opened in Windham, Connecticut. Its CMO, **Our Piece of the Pie**, received a \$585,800 grant to open the school. Within

a few years the school was opening up unauthorized satellite campuses as well as falsifying enrollment and attendance data [resulting in a \\$1.57 million](#) overpayment to the school. Before the State Education Department pulled its charter, the school surrendered it.

### A Closer Look at California State Grants

We continued our analysis by targeting California—the state with the most charter schools. We analyzed the list of California charter schools that received federal CSP grants (mostly through the SE/SEA program) between 2006 and 2014.

Because the department has failed to keep its promise to update the public database, we were unable to examine the list of more recently funded schools. Nearly four in ten recipient schools that received funding directly or indirectly from the CSP between those years either never opened or have shut down—a total of 306 schools. Using the DOE database, we determined that the total amount given to these “ghost” and failed charter schools was \$108,518,463 million.

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Nearly four in ten recipient schools in California that received funding directly or indirectly from the CSP between those years either never opened or have shut down—a total of 306 schools. Using the DOE database, we determined that the total amount given to these “ghost” and failed charter schools was \$108,518,463 million.

One hundred eighty-six (186) of the 306 closed schools either never opened or closed within a year. Seventy-five (75) of those never opened at all. These “ghost schools” never made it into the [California Schools Database](#), even though some had obtained federal ID numbers. Two ghost schools received two federal grants from SEA funds.

Examples include:

■ **Diego Hills** and **Diego Springs Charter Schools** were part of the *Learn for Life* chain, a controversial chain that operates storefront charters that require students to complete “packets” with minimum requirements for attendance. The respective 2015 graduation rates of the two schools were 19.3 percent and 0 percent. Both schools shut down in 2018. They had received \$625,000 in CSP funds.

■ **Eleven Academy of Arts and Sciences** online schools all using the for-profit K12 curriculum received nearly \$3 million in federal SE/SEA start-up funds. Eight of the 11 have shut down.

■ Hundreds of students fled the **Livermore Valley Charter School** and **Livermore Valley Charter Preparatory** in California after it was alleged that the schools illegally charged foreign exchange students tuition and transferred them to a school in Stockton against their will. The management company is under investigation for conflict-of-interest relationships as well as diverted, commingled and/or misappropriated public funds. The two schools, which had received \$810,000 from the CSP, closed in 2017.

■ Seven charter schools operated by **Celerity Education Group** received over \$3.7 million in total in federal funding from an SEA grant. Since then the chain has come under federal investigation over allegations of fraud and fiscal mismanagement. In December of 2018, its founder pleaded guilty to misappropriations and embezzlement of public funds. Three of the seven federally-funded schools, along with several other charter schools operated by the CMO, have now closed.

■ **The American Indian Charter High School's** founder Ben Chavis was indicted on criminal charges for fraudulently applying for \$2.5 million in federal grants between 2006-2012. He was charged with three counts of mail fraud and three counts of promotional money laundering. Three American Indian Charter Schools received in total \$1,166,500 from the California Department of

Education through the CSP's SE/SEA grant program.

## **2. The CSP's grant approval process appears to be based on the application alone, with no attempt to verify the information presented. Hundreds of schools have been approved for grants despite serious concerns noted by reviewers.**

*The New York Times* award-winning education journalist Michael Winerip wrote a story about New Jersey's **Tikum Olam Hebrew Language Charter High School** receiving a grant with little hope of ever opening. He characterized the department's policy as inviting “fiction writing” because the *consultants hired to review the applications are forbidden to “use information not included in the grant application itself.”* In other words, millions of dollars are given away based solely on the basis of what information the applicant chooses to share. This encourages applicants to paint a picture of their vision that is aligned with what the department is looking for, even though the school's reality may be quite different.

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*The New York Times* award-winning education journalist Michael Winerip characterized the department's policy as inviting “fiction writing” because the consultants hired to review the applications are forbidden to “use information not included in the grant application itself.”

Verifying information provided in an application does not require an intensive investigation. Review of public data on state websites, former applications and perusal of the school website can uncover information that calls into question the integrity of the application. We compared school applications with state enrollment data and

## A RIGGED REVIEW PROCESS?

Information about the process and criteria used to review applications for CSP grants is scant, but CSP issued an "**Overview of the 2015 CSP SEA Review Process**" in October 2015.

According to the Overview, "panels of independent peer reviewers read and scored applications ... based on the selection criteria and competitive preference priorities" provided by CSP. Reviewers were instructed to score each application "*based only on information included in the particular application they were reviewing.*" (italics ours)

Department staff "monitor the grants review process to help ensure thoroughness, fairness, and objectivity," and they "conduct second-level reviews of all applications" prior to issuing awards. It's not clear what occurs in the second-level reviews, or if those reviews are documented and available for public review.

Peer reviewers of the CSP grant applications, 21 in all, were not publicly identified by the Department. The Overview specified each reviewer must have "a solid understanding of the 'charter school movement.'" And in the list of qualifications in CSP's Call for Peer Reviewers, issued around the same time, the word "charter" appeared in nearly every possible consideration for hire.

school websites and discovered that while applicants often write to please the reviewer, what they state does not necessarily match the reality of their schools or their capacity to deliver what they promise.

■ **The MaST Community Charter School**, a Philadelphia City district-wide school, applied for and received a three-year CSP grant totaling \$721,380 in 2016 to expand its STEM-based program to another campus in the city to be called MaST II. "The vision," the school promised in its [application abstract](#), "is to carry these opportunities to kids in an urban setting, focusing on the development of low income, special education, ELL, and minority populations." However, MaST's student enrollment did not reflect a school genuinely committed to the students described above. The school's student enrollment, available on the State Department of Education website, is

68 percent White, eight percent Black and eight percent Hispanic in a surrounding district that is 14 percent White, 48 percent Black, 21 percent Hispanic. While the percentage of English language learners in the district is 12 percent, the percentage of MaST students who are ELL is only one percent. Although 91 percent of the students in the city are low-income, 41 percent of the students at MaST came from low-income homes.

A lack of demographic data was noted by the third reviewer of the 2016 application. "There is no demographic data on the current population of students attending MaST I; nor data on the racial, ethnic, economic or educational needs of the proposed population. It is noted that the narrative states that the average poverty rate of the surrounding schools range from 50 – 90 percent. (Pg. e17)." In fact, the school pulls from the entire district which has a poverty rate of 91 percent.

Nevertheless, this reviewer awarded four out of five points, and his two fellow reviewers each awarded five out of five points in the category, Serving Educationally Disadvantaged Students.

Would MaST II live up to the expressed commitment to diversity after receiving the grant? Two years after opening, MaST II applied for and received another three-year CSP grant totaling \$900,000. Its [application](#) once again pledged to "provide services to high-need, low-income, and ELL students." But if the application reviewers had bothered to look at the student enrollment of MaST II, they would have found the school's student demographics are not significantly more representative of the district's than the mother school is: 45 percent are White, 23 percent are Black, and 14 percent are Hispanic, 8 percent ELLs and 53 percent low-income.

The 2018 reviewers noted the selective data that MaST self-reported (special education and economically disadvantaged students without racial demographics or English language learners) without comparative district percentages. Reviewer 1 noted that the application provided no goals to increase the percentage of educationally disadvantaged students and "minimal information" on the demographics of its schools, the wait list or the home district. Nevertheless, the three reviewers assigned high points (10/15, 15/15 and 14/15) in the category, Assisting Educationally Disadvantaged Students.

A review of the MaST website during January of 2019 featured few minority students, no information in Spanish and a request for parental donations by credit card.

The federal commitment to MaST II now exceeds \$1.6 million even though outside information would indicate that despite the vision provided on the application, the school is designed to appeal to non-disadvantaged students. In the school's most recent lottery, it advertised 100 open seats, but the dozens of families who applied may not have known 61 of those seats were already taken due to sibling preference.

■ In 2018, **Kamalani Academy** in Wahiawa, Hawaii, won a two-year grant totaling \$489,586. The school had opened in August 2017 and promptly [lost most of](#) its teachers and its principal in the first year. Two months into 2018-2019 school year, [ten more teachers left](#). The school's application received 18 out of 18 possible points for Quality of Project Personnel by [reviewers](#). The key personnel listed on the [application](#), the principal and the arts integration coordinator, are now gone.

■ In 2018, **Snow Pond Arts Academy Charter School** won a five-year grant totaling \$659,403 to "launch the school to a level of sustainability when the capacity of 320 students is reached within five years." The application's background description says Snow Pond was "in its second year of operation, dedicated to providing high quality academics, instruction in the Performing, Visual, and Creative Arts." Nowhere does the description mention that the school opened in August 2017 using a "blended learning" [instructional model](#) that employed local academic teachers half-time only, and filled the rest of the instructional day with lesson plans provided by K12 Inc., a for-profit company located in Herndon, Virginia. A state commission investigation of the school at mid-year [found](#) "overuse of virtual education for non-arts classes, and special education services are not being provided to the students who need them." The school was also running a \$44,000 deficit.

[Before the 2017-2018](#) school year started, the school hired new leaders and dropped its online curriculum. Since receiving the grant, the school has changed its name to the Maine Arts Academy. According to state data, current enrollment for Snow Pond Arts Academy for the 2018-19 school year is 206, which certainly makes the target of 320 students possible by 2023. But the deceptive description in the grant application and the school's constant unsettled plan and program should have warranted questions about the school's financial standing and academic plan. Instead, the school's grant application was approved even after department reviewers gave it

only 72 of 100 possible points in the technical review.

The directed lack of rigor and investigation in the review process, and the seeming willingness of the CSP program to offer grants despite concerns expressed by reviewers raise questions about whether this program is truly committed to jump-starting schools that hold the greatest promise of success, or whether simply letting 1,000 flowers bloom, and accepting the chaos and waste of repeated failure is really the operational model.

### **3. Grants have been awarded to charter schools that establish barriers to enrollment, discouraging or denying access to certain students.**

A number of studies and [reports](#) over the past several years have noted the widespread use of practices and policies that discourage or deny enrollment in charter schools by certain types of students, or that lead to disproportionate push-out of certain students once enrolled in a charter school. A [2016 report](#) by the ACLU of Southern California found illegal or exclusionary practices at well over 200 charter schools in that state. Our analysis found that many schools that have received federal CSP funds appear to utilize some of these practices.

■ **The York Academy Charter School**, located in the city of York, Pennsylvania, received two non-SEA grants from the department—one for \$207,750 in 2013 and a second for \$997,315 in 2018. In its applications, York Academy describes itself as a charter school that draws from three school districts (two suburban and one urban) to create a diverse educational environment. It states, “We are confident that programming of IB’s (International Baccalaureate) rigor and prestige will continue to entice suburban parents to send their children into the City of York daily for school.” On page 1 of its 2018 [application](#), the school reports that about 60 percent of the students are drawn from the York City School Dis-

trict. By page 8, that figure has increased to 73 percent.

We examined whether or not the school achieved its goal, or, achieved its diversity by pulling advantaged students from the city public school system. Student enrollment was reported to us by the school to be 700 students. The nearby York Suburban School District sends 40 students to the charter. Central York School District sends 67. The approximate percentage of students, therefore, drawn from the suburban districts is about 15 percent while 85 percent come from the city. Further, rather than sending all advantaged students, a high proportion of the students coming from the suburbs are disadvantaged themselves—32 percent of the students sent by the suburban districts are students who receive free or reduced-price lunch. The two suburban districts, therefore, send only about 70 non-disadvantaged students to the school—10 percent of its enrollment.

The City of York from which the vast majority of students come, has an English learner population of 24 percent. Yet York Academy, which boasts of being an International Baccalaureate World School, had an ELL population of only 6.3 percent in 2013 which dropped further to 4 percent by 2018. Only 12 percent of the students who attend York City schools are White. Over one-third (34 percent) of the Academy’s students are White.

A visit to the York website indicates that the charter may be “creaming” able and advantaged students by design. In the [“common questions”](#) section of the site is this notice: “The York Academy offers a program for students identified as gifted or talented. We do provide special education programs for students; however, our programs are limited to students with mild handicaps. Those students with more severe handicaps would be referred to the Lincoln Intermediate Unit.” The website also insists that parents attend an open house so that they understand the expectations of the IB program. No information in Spanish is provided.

■ Idaho's **American Heritage Charter School** received a five-year \$1,250,000 grant in 2018 to expand its enrollment and add programs. The school's [grant application](#) claims the school "provides an exceptional educational choice for minority students." But the application's claim that the school's percent of students with special needs "is nearly equivalent to the local Idaho Falls School District" contradicts state data. American Heritage's proportion of students who received free or reduced- priced lunch is about half of the district's proportion (24 percent vs 47 percent) as is its percentage of students with disabilities (6 percent vs 11 percent.) While the city school district has a seven percent ELL population, only two percent of American Heritage students are English language learners. Finally, the school serves far more White students than the surrounding Idaho Falls district.

The school uses a number of dog-whistle tactics to attract politically conservative families, which likely influences the demographic make-up of the school. First, the [poster](#) used to recruit students features a take-off on a famous military recruiting poster. The website emphasizes the school's curricular focus on "patriotism." A lengthy and detailed [dress code](#) states no clothing made out of denim, sweatshirt, or athletic material is allowed.

Head coverings are not permitted indoors, with no mention of exemptions for religious or cultural reasons. Preferred colors for clothing are "flag" red, white, blue, and navy or black. "Boys are encouraged to wear ties as business professional is a focus of our dress code."

Much of the culture of the school can likely be attributed to its founder. Although the grant application claims the school "was founded by a group of local parents," it's been well reported that the school's founder is Frank Vandersloot. Vandersloot was finance co-chair of Mitt Romney's 2012 failed presidential campaign. Vandersloot made national headlines in 2015 when he [sued Mother Jones](#) magazine for defamation after the news outlet published an article detailing his efforts to oppose gay rights.

■ **University Charter School**, located on the campus of the University of West Alabama in Livingston, received \$1,115,137 in non-SEA grant funding in 2018, even though [reviewers](#) noted serious deficiencies in the application including the school being "likely to struggle in meeting the target population's complex needs." The school's principal was a former high school gym teacher with no K-8 experience.

Given the small and declining youth population in the county to be served, one reviewer noted that it would be very difficult for the school to meet its enrollment goal and expressed concern for the financial strain the school would pose to the existing public school system. It was also noted that while the applicant said the school would be a "likely choice" for students, there was no application pool or wait list information provided. Two reviewers were concerned by the lack of a plan for serving children with disabilities.

Two reviewers also questioned how a diverse school could be formed from a catchment area with public schools that serve only "one race." Although the students in the public school were 100 percent Black, nearly half of the 2018-19 students in the charter school are White. And while the percentage of students on free or reduced-price lunch is 73 percent in the public school, it is 46 percent at University Charter School.

It would appear that the charter school sought to achieve diversity by attracting White families who had either home-schooled their children or sent them to private school, and the children of university professors who were given enrollment privilege. The traditional public school remained 100 percent Black, its enrollment dropped, which would reduce its funding, and the proportion of students on free or reduced-price lunch went up. Although a diverse charter may have been created, the children attending the local public school, already under stress, paid the price.

■ **Great Hearts** is a charter management organization with schools in the states of Arizona and Texas. Between 2006 and 2015, Great Hearts' Ari-

zona schools received over \$6,430,000 of CSP money through an SEA grant provided to Arizona. That funding strangely also included an \$800,000 subgrant to Great Hearts Texas.

In a state in which 46 percent of the public school students are Hispanic, only 19 percent of the students who attend Great Hearts schools are Hispanic. Two percent are African American. We do not know how many Great Hearts students are economically disadvantaged because Great Hearts does not offer free or reduced-price lunches, nor do they provide transportation, according to the Arizona Department of Education.

The CMO was cited four times in a report by the ACLU Arizona entitled *Schools Choosing Students*, which chronicled the discriminatory practices of the state’s charter school sector.

The ACLU report exposed a Great Hearts policy that discriminated against transgender students, its demands for book deposits and the schools’ requests for a minimum \$1,500 annual donation from parents. It featured a story about a Great Hearts school turning away a special education

student based on the claim that it could not meet his needs.

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■ The for-profit corporation, **BASIS Educational Group, LLC** manages both charter schools and private schools. Its charter schools operate in Arizona, Texas, Louisiana and Washington, D.C., and the company is attempting to expand into Georgia, Colorado and Nevada. BASIS Inc. also operates private schools in upscale neighborhoods in New York City, Silicon Valley and abroad.

Between 2006 and 2014, several BASIS charter schools received funding from the CSP through the SEA program. In total, schools in the chain received \$5,605,000 during that time period. Most of the funding (\$4,140,000) to BASIS was passed through the state of Arizona’s SEA grant.

A close look at the demographics of BASIS schools in the state reveal a student population much different from that of Arizona’s traditional public schools. The enrollment figures in **Table 1** are from the 2015-2016 school year.

**Table 1 - Comparative demographics: Arizona schools and BASIS schools**

	Asian	American Indian/ Alaska Native	Black	Hispanic	White	Mixed
<b>Arizona Schools</b>	3%	5%	5%	45%	39%	3%
<b>BASIS</b>	32%	0%	3%	10%	51%	2%

These disparities are startling. But differences in the students served do not end with race and ethnicity.

In 2015-16, only 1.23 percent of the students at BASIS had a learning disability, as compared to 11.3 percent of students in the state. BASIS schools had no English language learners. And in a state in which over 47 percent of all students received free or reduced-price lunch, BASIS had none.

What practices or policies contribute to these disparities? Several. For example, the schools do not participate in the federal free-or reduced-price meals program, thus potentially discouraging prospective students from very low-income households that rely on those meals.

In addition, Arizona BASIS provides no transportation to their schools, making it difficult for students without the means to get to them. And there's more: BASIS requests that families contribute at least \$1,500 a year per child to fund its [teacher bonus program](#). Enrollees must also pay a \$300 security deposit, purchase some books and pay for activities that would be free if the student attended a public school.

The BASIS curriculum prohibits new students transferring in after middle school. Students must take six Advanced Placement exams and pass at least one with a score of three or above, in order to graduate. However, they are required to take more AP classes than that, beginning in middle school. There are comprehensive tests that must be passed, or students are retained.

Even after getting into BASIS, there is less than a 50 percent chance the student will stay to graduate. During each successive year, students leave when they cannot keep up with excessive academic demands.

Like other "no-excuses" charter schools found across the country, the attrition rates at BASIS middle and high schools are extraordinarily high.

Of a cohort of 85 students who began eighth grade in BASIS Flagstaff during the 2011-12 school year, only 41 percent (35) remained to enter twelfth grade in 2015-16. In the flagship school, BASIS Tucson North, a seventh-grade class of 130 became a class of 54 by senior year.

Practices and policies that discourage enrollment, deny enrollment or drive students out of charter schools not only fly in the face of the whole notion of "choice" (whose choice is it, then?) but also work to increasingly segregate the most vulnerable or disadvantaged students in traditional public school systems while siphoning off much-needed resources that support them. Discriminatory enrollment practices are widespread, having been documented in multiple states. [According to a study](#) by the Arizona chapter of the ACLU, hundreds of charter schools in the state, perhaps as many as 56 percent of all charters, "have policies that are clear violations of the law or discourage the enrollment of certain students, including students with disabilities, students who struggle academically, students with disciplinary history, and students from immigrant families."

The ACLU of Southern California also [found](#) hundreds of examples of inappropriate and even illegal barriers to enrollment in California's charter sector. Our analysis identified many Arizona and California charter schools cited in the ACLU reports that had received federal CSP grants.

#### **4. Recommendations by the Office of the Inspector General have been largely ignored or not sufficiently addressed.**

Decades of audits conducted by the department's own Office of Inspector General (OIG) have surfaced significant concerns over how Charter Schools Program money is spent, the program's lack of transparency, and the general lack of monitoring to ensure the funds contribute to the intended goals of the program. While some weak

efforts have been made to improve public reporting on the program, the U. S. Department of Education has repeatedly deflected the OIG's critique, saying that the department has neither the manpower nor the authority to more rigorously police their own grants.

- A 2003 OIG audit of Sonoran Science Academy in Arizona found the school recruits an unusually high percentage of teachers from Turkey and that \$20,519 of the \$158,500 the school had received in grant money from the CSP had been used for fees paid to a teacher exchange organization to facilitate hiring teachers from foreign countries — an unallowable use of grant funds. The school is alleged to be part of a [global network](#) of Turkish-run schools connected to Fethullah Gulen, an exiled Muslim cleric living in Pennsylvania. The school denies this connection. The Academy disputed the OIG's findings and refused to refund the misspent grant money. It's not clear whether the department took further action to recover misspent money, but since the OIG report, numerous other charter schools with connections to the Gulen network have received CSP grants, including those in the Sonoran, Magnolia, Harmony, and Horizon networks.

In 2011, the CSP grant stream for CMOs provided a nearly \$5,000,000 grant to the Cosmos Foundation to replicate Harmony charter schools. That year [The New York Times](#) exposed the connections between Cosmos, the Gulen movement and the Turkish vendors who received contracts from the charter school system. The article noted that there was an ongoing investigation regarding half a million dollars of federal grant funds.

Nevertheless, Gulen-affiliated schools still welcomed millions of CSP dollars through the SEA program. The Fulton Science Academy in Georgia, that received nearly a quarter-million dollar SEA grant, had its charter

renewal denied in 2012 after a forensic audit [revealed](#) the charter spent nearly \$75,000 helping new employees and their families immigrate. Apparently being cited by the 2003 OIG audit had not ended this illegal use of federal funds. The audit also identified numerous related-party transactions.

- An OIG audit of six federal grants provided to the KIPP Foundation, which operates Knowledge Is Power Program (KIPP) charter schools, from 2004-2006 found KIPP included unallowable costs in its charges, including tens of thousands spent on alcoholic beverages, DJ services, and travel expenses related to staff retreats. Federal grants continued to pour in. KIPP charter schools received approximately \$20,500,000 between 2006 and 2014. The CMO has received \$130,463,127.
- A 2010 [report to Congress](#) by OIG found that since 2005 OIG had opened more than 40 charter school-related investigations that had resulted in 18 indictments and 15 convictions of charter officials and \$4.3 million in criminal restitution of embezzled money. The report noted there were 43 additional complaints and a "steady increase for the number of charter school complaints for our office to investigate." The most frequently identified type of fraud was embezzlement of federal, state, and local education funds. Reported incidents included charter school operators using federal funds to buy luxury goods, travel, and restaurant expenses. A reply from the department stated that some of the incidents of fraud are state violations and can't be addressed by its office.
- In 2012, OIG issued a [final audit report](#) that found deficiencies in how the department handled some nearly \$940,000,000 in federal grants to state agencies and charter schools. The audit also found state education agencies (SEAs) that awarded federal

grant money to individual charter schools did little to ensure the money was used to accomplish the intended purposes of the grant program. The review examined the oversight process for SEA grants made to Arizona, California, and Florida covering the grant period August 1, 2007, through September 30, 2011. OIG discovered dozens of charter schools received federal dollars but never opened their doors to students. The schools received millions in federal funds, but there was no record of what happened to the equipment, supplies or anything else purchased with the federal dollars for schools that never opened, the audit said.

Of the three states examined, none of the three SEAs adequately monitored charter schools receiving the grants, had adequate methodologies to select charter schools for monitoring, or monitored charter authorizing agencies. Florida did not track how much SEA grant funds charter schools drew down and spent. And California did not have reviewers who were qualified to conduct onsite monitoring of charter schools. The audit concluded "there is increased risk that department funds were not used for the intent and purpose of the program." Among OIG's recommendations were that the department develop and implement policies and procedures for monitoring grantee fiscal activities, requiring SEAs to develop a detailed monitoring plan, and ensure SEAs have procedures to properly account for SEA grant funds spent by closed charter schools and for disposal of assets purchased with SEA grant funds.

In its reply to OIG, the department's Office of Innovation & Improvement (OII), which oversees the CSP, stated it was not OII's role to track subgrantee corrective action plans directly and that because the number of SEA subgrantees was in the hundreds, it was not feasible for the CSP staff to track individual charter schools. However, OII

added that it would ensure that SEAs develop corrective action plans for their subgrantees and track them as part of the state's overall subgrantee monitoring plans. Consequently, the department issued a "[Dear Colleague](#)" letter to SEAs in 2015, emphasizing the importance of financial accountability for charter schools receiving federal dollars. The letter recommended SEAs conduct regular independent audits and strengthen authorizing practices. There doesn't appear to be any follow-up from the department to ascertain how many states followed through on this request.

- A [2016 report by the OIG](#) examined charter and education management organizations (CMOs) and found, "The department's internal controls were insufficient to mitigate the significant financial, lack of accountability and performance risks that charter school relationships with charter management organizations pose to department program objectives." In 22 of the 33 charter schools reviewed, there were 36 examples of internal control weaknesses related to the schools' relationships with their charter management organizations, including conflicts of interest and related-party transactions.

These internal control weaknesses pose considerable risks including financial waste, fraud, and abuse; lack of accountability over federal funds; and federal funds being used in ways that violate federal requirements. Of the six states examined—California, Florida, Michigan, New York, Pennsylvania, and Texas—all states allowed for-profit management companies to operate charters, three states don't require a contractual agreement or oversight of that agreement between a charter and its management company, and two states did not require conflicts of interest to be disclosed in charter applications.



Among OIG's recommendations were for the department to convene a formal oversight group for charter grants and to provide further guidance to state education agencies for monitoring charters and their relationships with management groups. It also recommended that Congress consider legislation that would "clearly identify the governance responsibilities of the department and SEAs with respect to the roles, responsibilities, and expectations of the administration and oversight over grants provided to charter schools, specifically with regard to the risks associated with CMOs."

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Indeed, the current Secretary seems to deny the existence of a problem—American taxpayers seem to be left with little choice other than to continue to tolerate, even expect, public funds intended for educating students in charter schools to be subject to waste, fraud, and abuse.

In comments, the department agreed to the report's conclusions about risks to federal funds and agreed federal regulations require that the federal grant recipient directly administer or supervise the administration of the grant to ensure money is spent responsibly. The department also pointed out that "by statute, SEAs bear primary responsibility for ensuring that federal funds they award to charter schools are expended properly." Also, the department noted that its authority is limited by law, and that it "does not have the resources to monitor directly each and every charter school."

- In 2018, an audit by OIG of charter schools that had closed in Arizona, California, and Louisiana in school years 2011–2012 and 2012–2013, found that the department's

oversight and monitoring of the selected SEAs by the Title I, IDEA, and CSP program offices was not effective to ensure that the SEAs performed the charter school closure process in accordance with federal laws and regulations. The SEAs did not always meet federal and state requirements when performing close-out procedures for federal funds a charter school received, disposing of assets a charter school acquired with federal funds, and protecting and maintaining student information and records from closed charter schools. OIG recommended the department conduct an assessment to determine whether SEAs that fund charter schools pose a risk to federal funds and issue guidance to SEAs on effective charter school closure procedures.

In its comments included at the end of the audit, the department did not explicitly agree or disagree with the findings but stated it "did not consider charter school closures to be a risk to federal funds" and that OIG's recommendations "would be inconsistent with the federal role in education." The department asked instead for "a single recommendation that recognizes the balance between federal and state responsibility for the oversight of charter schools."

Given OIG's continuing discoveries of financial malfeasance of charter schools being funded in part by federal grants, and the department's repeated insistence that it is unable to stem the flow—indeed, the current Secretary seems to deny the existence of a problem. American taxpayers seem to be left with little choice other than to continue to tolerate, even expect, public funds intended for educating students in charter schools to be subject to waste, fraud, and abuse.

## 5. The department does not conduct sufficient oversight of grants to State Entities or State Education Agencies, despite repeated indications that the states are failing to monitor outcomes or offer full transparency on their sub-grants.

Since its inception, the Charter Schools Program has awarded billions in federal grant money to state agencies through its program for State Education Agencies (SEA)—now called the “State Entities” program.

The OIG has repeatedly warned that some of the worst abuse of charter grant funds occurs when SEAs pass that funding along directly to individual charters or charter organizations as sub-grants. We found that the risk posed to federal funds through the subgrant process is actually much worse than what OIG has reported.

The culprits here appear to include state agencies that are ill-equipped to aggressively monitor the use of federal pass-through funds, and/or that have little or no interest in doing so.

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■ **Michigan** has long been considered a “wild west” of charter proliferation and malfeasance. The Center for Media and Democracy (CMD), whose findings are referenced earlier in this report, found that in Michigan alone, which won \$34,997,658 in federal CSP funding for charters between 2010-2015, 25 charter school subgrantees that together received nearly \$1.7 million never opened. Since the CMD report, we have identified another 15 Michigan charter school grant recipi-

ents, which did not appear on CMD’s original list, that have closed or that never opened. Nine additional charter schools could not be tracked, either because they closed, consolidated or changed names.

In addition to schools that never open or quickly close, some Michigan SEA grant recipients pose additional concerns:

- The Benjamin E. Mays Male Academy in Detroit, MI received \$110,00 in federal funds. The school's [website address](#) takes you to a website for a Baptist Church and includes no mention of the school, other than in a photo of the church’s message board. Listings on the internet classify the academy as a “private” school affiliated with the Baptist Church.

Troubling data that points to possible discrimination at charter schools also seems not to bother Michigan’s subgrant reviewers. According to the [“Miseducation” project](#) at ProPublica:

- At Hope Academy of West Michigan in Grand Rapids, which received an SEA subgrant of \$550,000, non-White students were more than seven times more likely to be subjected to harsh discipline practices, while White students were ten times more apt to enroll in Advanced Placement classes than their Black and Brown peers.
- At Caniff Liberty Academy in Hamtramk, which received a \$500,000 grant, non-White students were more than six times more likely to be subjected to harsh discipline practices, and White students were five times more apt to enroll in Advanced Placement classes.

The Center for Media and Democracy found that where there are agencies and commissions charged with oversight of charters in Michigan, those regulatory bodies are staffed “mainly by charter proponents.” The report calls this “a classic example of ‘industry capture’”—agencies

charged with oversight being controlled by representatives of the industry they are tasked with overseeing.

Nowhere in [Michigan's 2018 application](#) to the federal CSP are there specific references to the state's previous problems with overseeing and monitoring federal grant money. None of the five "objectives" listed in the application have anything to do with increased transparency and accountability for how CSP money will be spent. The application's section describing Quality of Eligible Subgrant Applications states, "The likelihood that the eligible applicants receiving subgrants under this program will meet their objectives and improve educational results for Michigan can be shown in the historical data." Michigan Department of Education (MDE) cites work "done in the last two years ... to improve overall school performance." Using a table comparing charter schools receiving previous CSP support to those that didn't, MDE claims, "CSP subgrantees perform measurably better with overall proficiency for all students." The table includes data from only school-years 2014-2017, and it's not clear whether grant-receiving charters that never opened or closed before annual assessments are accounted for. The application states, "Schools deemed for closure are provided the process to disperse assets and transfer student records," but it's not clear what the process is for charters that receive grants but never open.

For-profit charter management organizations in Michigan are permitted to act as "agents of the charter school" applying for the money, a huge loophole that allows for-profit CMOs like National Heritage Academies to continue to benefit from the grants.

Even though no potential subgrant applicants are identified in Michigan's application, the department's [reviewers](#) gave the maximum number of points, 15, or near maximum, 14 of 15, on the Quality of Eligible Subgrant Applicants.

Despite its troubling track record on monitoring its grants, the U.S. Department of Education

[awarded](#) Michigan another five-year grant totaling \$47,222,222 in 2018.

■ Another frequent recipient of CSP grants has been **Arizona**, which was also twice cited in audits by the U. S. Department of Education's OIG. The state's CSP won a five-year award of \$46,549,367 in 2009, a three-year award of \$23,624,997 in 2015, and another five-year award of \$55,000,000 in 2018. About 16 percent of Arizona students attend charter schools, the highest percentage of any state.

Each year the state has applied for grants, its [application](#) stated that among the state's most important objectives is "improving the academic outcomes of educationally disadvantaged students." The state's 2018 application proposed a five-year impact of the grant would be 85 percent of disadvantaged students in awarded schools meeting or exceeding the state average on state assessments and 85 percent of disadvantaged students graduating from high school. [Reviewers](#) of the application had reservations about these objectives, with one reviewer noting a lack of "sufficient information to verify the ambitiousness, soundness, or feasibility of proposed objectives."

But perhaps Arizona intends to achieve its ambitious goals for educating disadvantaged students in charters by preventing them from enrolling in the schools. According to a [study](#) by the Arizona chapter of the ACLU, hundreds of charter schools in the state, perhaps as many as 56 percent of all charters, "have policies that are clear violations of the law or discourage the enrollment of certain students, including students with disabilities, students who struggle academically, students with disciplinary history, and students from immigrant families." The report found charter schools that were capping the number of students with disabilities enrolled, refusing to admit students with prior suspensions, requiring student essays or interviews, requiring parents to volunteer for the school, and providing enrollment materials in English only or not providing them online at all.



We determined that no fewer than 20 Arizona charter schools and/or chains that received money through the SEA charter school grant program were identified in the ACLU Arizona report.

Another issue completely overlooked in the department's review of Arizona's CSP application is the well-reported history of financial waste, fraud, and abuse in the Arizona charter sector. A recent investigative series by the *Arizona Republic* found widespread problems with charter school financials in the state, including numerous charter school leaders who have made millions off their schools and their associated businesses by using taxpayer money to purchase valuable real estate assets and to engage in no-bid contracts with their own companies. [Reporters found](#) a chain of schools that solicits large donations from parents to cover the cost of teacher salaries while the executives who run the school earn high six-figure incomes. Meanwhile, numerous charter schools severely underperform on state measures of academic achievement and high school graduation rates.

Despite this troubling evidence of discrimination and financial malfeasance in Arizona charters, the department's Technical Review Form for its 2018 grant applications failed to include a single question that might have led reviewers to examine whether new applicants might continue these same concerning practices.

■ **New Mexico** received a five-year grant of \$14,660,296 in 2009 and a five-year grant of \$22,507,805 in 2017.

In its 2009 grant [application](#), the New Mexico Public Education Department promised a "higher degree of direct accountability for state-chartered school operation, management, and success" and "greater responsibility" for charter "programs, management, policies, and accountability." Yet, there's strong evidence the state's oversight of its charter sector is inadequate.

A 2016 report by the National Association of Charter School Authorizers [describes](#) the state's

means for holding charters accountable for academic performance as "minimally developed."

In 2017, an [investigation](#) by the State Auditor's Office found that about a half million dollars were diverted from an Albuquerque elementary charter school into a former employee's personal bank account during a six-year period. Altogether over \$700,000 is unaccounted for.

Another [examination](#) by the State Auditor's Office in 2017 looked at how administrative costs are accounted for in the state's system for overseeing charter schools and found \$20 million in unaccounted-for costs over a five-year period. The audit surfaced other concerns about charter financial practices that could impact how federal grant money has been spent, including "procurement code violations, a lack of background and licensure checks for educators, overspending, and ineffective financial controls."

New Mexico's 2017 CSP grant [application](#) promised to "improve the fiscal/audit and organizational performance of the charter school sector" and require charters to undergo state-administered annual budget reviews in which the schools must "justify the projected uses of state, federal, and other funds."

Apparently, these promises were good enough to secure the state over \$22 million in additional federal funds.

■ In **Idaho**, Charter Schools Program grants totaling more than \$21.6 million included over \$2.3 million in federal funds going to [schools that never opened](#) or closed after brief periods of service. Seven of the 51 Idaho subgrants went to charter schools that later closed. In 2018, Idaho's Public Charter School Commission imposed a range of academic [sanctions](#) on 13 of 25 charter schools up for renewal in the state. Of those 13 schools, nine had received CSP grants.

The Idaho Department of Education stopped applying for federal SEA grants, according to a spokesperson, because the federal government

stepped up its insistence that states have documented plans for closing failing schools. But that didn't stop the Charter Schools Program from offering a new, five-year State Entities grant of \$17,111,111 to Idaho's Communities of Excellence, a private consortium that supports charter school start-ups in the state. Communities of Excellence is run by a corporation called Bluum Inc. The consortium's CSP application is not available on the department's website, but the [abstract](#) makes no mention of efforts to improve the financial stewardship of federal grant money intended to fund new charters. Bluum Inc.'s CEO Terry Ryan has [defended](#) the state's charter start-up failure rate as being significantly lower than new business failure rates, but he ignores the important distinction that new businesses are started with private capital, not taxpayer money.

## **6. The CSP's grants to charter management organizations are beset with problems including conflicts of interest and profiteering.**

Perhaps the most blistering of all of the audits by the OIG was [the 2016](#) report concerning the relationship between charter schools and their CMOs (it should be noted that the OIG uses the term "CMO" for both non-profit and for-profit charter management organizations). Of the 33 schools they reviewed, 22 had one or more of the following: conflicts of interest between the CMO or the charter, related-party transactions and/or insufficient segregation of duties.

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Despite the problems identified in 2016 by the OIG, the department awarded nearly \$127 million to charter chains alone the following year.

The OIG illustrated the problems with real examples (see pages 17-20 of the report):

- Four members of one charter school in Pennsylvania were officers of both the charter board and the CMO, signing contracts for both boards including those contracts between the charter and the CMO.
- In Texas, five charter schools did not disclose their relationships with vendors. In another two schools, present and former administrators of the charter school had substantial interests in companies that provided services. Two charter schools in Florida that shared the same CMO leased their buildings through companies affiliated with the CMO.
- The CEO of one Pennsylvania charter management organization wrote checks without board approval, including multiple checks to himself totaling approximately \$11 million dollars in one year alone.
- An Oregon CMO and two former executives of a charter school misused both state and federal funds.
- A Michigan couple diverted over \$400,000 for personal use including vacations by having the CMO they started fraudulently bill the charter school on which the husband served as a member of the board. The couple were sentenced to over three years in prison.

The problems found in the audit were so significant that the OIG recommended that the U. S. Department of Education offer legislation to Congress that would "clearly identify the governance responsibilities" of the department, the states and authorizing agencies with respect to roles, expectations, responsibilities and oversight associated with charter management organizations.

Despite the problems identified in 2016 by the OIG, the department awarded nearly \$127 million to charter chains alone the following year.



CMOs that have been recipients of lavish federal grants are not starving for funds. Some also enjoy millions of dollars in philanthropic grants. Indeed, one of the areas of concern expressed by many groups are the oversized salaries of some CMO executives, salaries that often exceed the salaries of big city district superintendents. The **Success Academy Charter School** chain in New York City has received \$47,540,399 dollars from CSP—over \$44 million in CMO grants and an additional \$3.2 million for individual schools through the SEA grant program. According to its 2016 tax form, the Success Academy ended the year with over a \$55 million balance in funds and assets. That year it paid its CEO, Eva Moskowitz, \$782,175.

In addition to the lack of financial need, the controversial charter chain has received notoriety for its [high attrition rates](#), [“got to go lists,”](#) [excessive disciplinary practices](#), [misreporting of Civil Rights discipline data](#) to the federal government and, according to a [recent federal lawsuit](#), unwillingness to provide appropriate special education services. A recent New York State [investigation](#) found Success Academy to be in violation of the rights of students with disabilities, while also citing the New York City Department of Education for not properly supervising the charter school chain.

Success Academy is not alone. Exorbitant sums of money have gone to other charter chains, including those that engage in practices that are designed to encourage lower performing students to leave or never enroll. The “cherry picking” of data included in applications to the CSP, not verified by the department, result in application ratings that are higher than deserved.

In 2017, the charter management company known as **IDEA** received a grant from the U. S. Department of Education for \$67,243,986. Not only was this astounding sum more funding than was given to the 16 other awardees in its category combined that year, it was the fourth time in seven years that IDEA had received a multi-million dollar grant to expand its charter holdings. One

year earlier, the department awarded the chain nearly \$12 million. Since 2010, IDEA has received nearly \$108.5 million—including new grants given even before a prior grant has been spent.

IDEA’s 2016 and 2017 applications were quite similar. The data presented regarding the chain’s numerous schools in San Antonio caught our eye. Although nearly all of the CMO’s San Antonio schools were located within the San Antonio Independent School District, the application compared the schools’ demographics not to the district, but rather to San Antonio Region 20, a large geographic region which encompasses hundreds of miles with areas that are about a three-hour drive away from any of the schools. Using regional data made a compelling case that IDEA’s schools served a far needier population than the public schools. When it came to comparing performance data, however, IDEA used San Antonio ISD, not the sprawling region in which it is located.

A visit to the Texas Education Agency website makes the motivation clear—if the chain were to compare the demographics of the San Antonio IDEA charter schools (open at the time of application) to the San Antonio Independent School District, it would become apparent that the San Antonio IDEA charter schools on the whole serve fewer English language learners, students with disabilities, at-risk students and students who receive free or reduced-price lunch. The schools listed beneath the district were in operation and located within the boundaries of the San Antonio ISD at the time of application. These discrepancies are shown in **Table 2**.

**Table 2 -Comparative demographic data: IDEA charter schools in San Antonio and San Antonio public schools**

	SWD	ELL	At Risk	Econ. Disadvantaged
<b>San Antonio ISD</b>	<b>10%</b>	<b>19%</b>	<b>71%</b>	<b>91%</b>
Carver Academy	5%	8%	17%	77%
Carver College Prep	11%	11%	39%	78%
Eastside Academy	7%	16%	21%	93%
Eastside College Prep	14%	12%	26%	93%
Judson Academy	5%	13%	14%	61%
Judson College Prep	14%	15%	20%	67%
Najim Academy	2%	10%	13%	88%
Najim College Prep	11%	13%	18%	88%
South Flores Academy	6%	8%	24%	79%
South Flores College Prepe	8%	13%	34%	80%

Using the poor urban center that the San Antonio Independent School District serves for comparative performance data advantages the charter chain. Hence the switch, without explanation, is later made in the application.

Not mentioned in IDEA’s application to the CSP or the department’s review are serious issues raised about IDEA that could be found through a simple google search. The school’s [handbook](#) notes that it can exclude students with serious disciplinary issues. Although the application brags that it has a 100 percent college acceptance rate, it *requires* acceptance into a four-year college as a condition for graduation. This requirement acts as a screen that keeps out students who wish to enter the world of work rather than college upon graduation.

Per IDEA policy, the schools [retain students](#) who do not achieve sufficient scores on state tests in Grades six and nine. There are high retention rates at other grade levels as well. In 2017-2018, San Antonio’s IDEA Carver Academy retained 50

percent of its special education kindergarten students, 20 percent of its special education third-grade students, and 12.5 percent of its general education fourth- grade students. To put the fourth-grade general education rate in perspective, that year only 0.6 percent of all Texas general education fourth graders were left back, according to the Texas Education Agency.

To avoid being “left back,” many students just leave IDEA charter schools. Indeed, Professor Edward Fuller of Penn State College of Education presented [compelling evidence](#) that not only do the schools lose students, but more specifically, *they lose low-performing students* in disproportionate numbers, thus boosting scores in high grades. In its own [strategic plan](#) for 2011-2017, describing what it calls its “Big Hairy Audacious Goal” for expansion, IDEA notes that it is only able to keep about 65 percent of its high school students—indicating that it expects to lose about one-third of its students during the high school years.

In 2018, **Rocketship Education**, a charter management organization based in Redwood City, California, received an expansion grant of **\$12,582,678** through the [CSP's CMO grant program](#). Rocketship had previously received a grant for over \$6 million in 2011, while individual Rocketship schools in California received SEA grants totaling at least \$2,360,000.

Rocketship's 2017 federal grant application offered that it "has never had any schools closed, any charters revoked, any statutory or regulatory compliance issues, any student safety violations or issues, or any financial or operational mismanagement. (p. 30). However, on February 22<sup>nd</sup>, 2017 (during the same month of their grant submission to USDOE), the Office of Charter Schools for the Metro Nashville Public School District issued a [Notice of Deficiency](#) to Rocketship, citing "several violations at Rocketship Nashville North-east Elementary concerning state and federal laws governing the education of students with disabilities, English learners, and homeless students." This is not an isolated complaint. Many ongoing issues and concerns were not disclosed in Rocketship's bid for federal funds.

There have been numerous abandoned attempts by the CMO to open schools, despite receiving substantial federal start-up grants. For example, in May of 2018, parents in Washington DC were informed that Rocketship's third planned school was not going to open. Families weren't notified until after the deadline for the DC school lottery, leaving them [scrambling to find](#) schools for their children. Although Rocketship claimed they were unable to open due to facilities issues, enrollment may have been the deciding factor. Rocketship had a targeted enrollment of 160 students, while only 22 families had enrolled when Rocketship decided to cancel the school opening.

In 2016, Rocketship's attempt to open a third Nashville school [was rejected](#) for the second year in a row, in part stemming from data of one of its other Nashville campuses indicating test scores [in the bottom 3 percent](#) of all schools in Tennessee. Despite denial at the state level, Rocketship

sought authorization through alternate methods and eventually opened the school. However, in February of 2018, only months after opening, Rocketship [announced the closure](#) of the new Partners Community Prep due to low enrollment.

Additional concerns have been raised. In 2017, National Public Radio published an [investigative exposé](#) citing reports of serious health and safety concerns, re-testing of students, and unsound educational practices (corroborated by multiple interviewees) at Rocketship campuses in San José.

Despite denial by district and county boards, and strong community opposition, the State Board of Education in California [authorized](#) Rocketship Futuro in the Mt. Diablo Unified School District. Several months following the school's opening, a series of letters were issued by the State Department of Education indicating financial concerns that appeared to have been unresolved since at least 2015-2016. Since October 2017, the California Department of Education has issued at least [six letters of concern](#) to Rocketship with a range of issues cited, including failure to provide access to appropriate ELL instruction, ongoing non-compliance with teacher credentialing requirements, and escalating financial problems. In early 2019, Rocketship was required to pay back \$400,000 to the California DOE after being [cited for violations](#) of the law regarding enrollment counts.

On March 6<sup>th</sup>, 2019, when asked by Trustees of the Santa Clara County Board of Education how Rocketship planned to communicate its financial problems to parents, their response was that all the information was "already available" to the public on the Rocketship website. As of March 10<sup>th</sup>, 2019, however, the Rocketship Board documents are inaccessible to public view, with the [meetings page](#) linked to the *Board Doc* link revealing a note that reads "No meetings to show at this time." The section of Rocketship's website that had included links to past years' meetings, agendas, minutes, and documents is also no longer visible.

Small charter chains also cherry pick the data they share to present a picture of schools that are more successful than they are. **The Great Oaks Foundation, Inc.**, received a federal CMO grant for nearly \$4,000,000 in 2017 to expand enrollment in its four schools, each in a different state in the Northeast. Charter chains receive these grants in theory for demonstrating a strong record of success with disadvantaged students. But the data presented in the CMO's application for a grant is not verified by reviewers, and so they make decisions based on what the school, or in this case the charter management organization reports.

One of the four Great Oaks Foundation schools is located in New York City. The school is referred to its application to the CSP as GO NYC. The school provided selected data in its narrative from a single year—the 2015-16 school year. Because the charts provided by the applicants are not available to the public, reported data must be gleaned from the [reviewers' comments](#) on the application. In their review, the following notes are included:

- Reviewer 3: “Low income students at GO NYC were 24 percent more proficient in Math and 16 percent more proficient in English Language Arts (ELA) than low income students in NY State. (e29).”

New York State Education Department (NYSED) data tell a different story. On half of the state tests, GO NYC students had a 2015-16 proficiency rate for low income students that was **substantially lower** than the comparative rates for the state.

In the three cases in which the school exceeded the proficiency rates of students in the state, the results were carried by one sub-group, Asian-American students. In 2015-16, Asian-Americans comprised 22 percent of all students at the school. The Asian-American proficiency rate on the eighth-grade ELA test was 89 percent. On the seventh and eighth grade math tests the rate of proficiency for Asian-American students at the school was 85 percent and 72 percent as com-

pared to the respective rates for the school's Hispanic students (24 percent and 21 percent).

The discrepancies continued:

- Reviewer 1: “The applicant schools are identified as enrolling a significant sub-population of English language learners. It is specified that in New York City the schools operated by the applicant demonstrated student data of 60 percent of English language learners demonstrating proficiency in state assessments as compared to eight percent of a similar population in other New York city schools.”

This statement is also not true. Again, [according to the New York State Education Department database](#), the aggregated 2015-16 6-8 grade ELA proficiency rate for GO NYC's English language learners on the state assessments was 0 percent. The aggregated 6-8 grade math proficiency rate for English language learners on the state assessments was 43 percent. All of those students were Asian-American and only six were tested.

Despite these concerns, the reviewer gave the CMO a score of 31/45 on the criteria of quality. The two other reviewers gave the applicant nearly full points for quality.

As more and more of the nation's charter schools are operated by charter management organizations, the federal Charter Schools Program could be a strong enforcer of transparency and oversight of these private entities. Instead, as with the other funding streams within the CSP, it seems that the objective of the program is to drive out taxpayer dollars, with little effort to rein in bad practices.

## 7. Under the current administration, while Congressional funding for the CSP rises, the quality of the applications and awardees has further declined.

As mentioned earlier, congressional appropriations for the federal Charter Schools Program have been steadily increasing. The program was appropriated at \$219 million in 2004. The budget went up to \$256 million in 2010, \$333 million in 2016, then to \$342 million in 2017, \$400 million in 2018 and is now at \$440 million for FY 2019.

With the additional funding, the number of grants has climbed dramatically. In 2018, the department awarded grants to 32 applicant non-SEA charter schools. This was only one fewer award than was given in this category during 2014, 2015 and 2016 combined.

Even as the number of awardees has increased, the quality of the awardees' applications decreased.

During 2014-2016, the average score of schools' receiving a non-SEA grant was 91. Only one awardee had a score below 80 (79.67) In 2018, the average score dropped to 84. Nearly one third of awardees had scores below 80.

Among the questionable awardees in the 2018 round of grants are the following:

■ In 2018, **Star Academy, aka Legacy Prep Charter School** in Birmingham, AL received a \$1,115,137 grant through the Non-SEA program. It received only 72.33 points for the quality of its application. During the application process, the school was embroiled in a lawsuit over school governance between New Rising Star Baptist Church Pastor, Thomas Beavers, and the Executive Director of the charter school. Though the U. S. Department of Education did not post the school's full application on its website, according to the reviewers, the application did not provide

enough detail regarding how it would continue once the federal grant ran out. They also noted that there would be a decrease of 25 percent in philanthropic support, indicated the lack of a fundraising plan for the school, noted that there was no research base provided for the school's academic plan and stated that qualifications of key personnel such as the Superintendent and its finance manager were missing. The school received the grant with over \$800,000 front-loaded to the first year. It has yet to enroll any students.

■ The **Accel Charter School**, also in Alabama, did not have its application posted—instead an application for a Missouri charter school is in its spot. Once again, reviewers expressed serious concerns. They noted that the applicant did not provide a detailed budget, financial plan, description of internal controls and auditing procedures, nor resumes of key personnel, sources of private funding, or an explanation for a \$190,000 shortfall in revenue. No worries. The school received a grant for \$1,026,960.

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Even as the number of awardees has increased, the quality of the awardees' applications decreased.

■ **DreamHouse Ewa Beach** charter school secured a three-year CSP grant eventually totaling \$567,804 to open in Ewa, Hawaii. But reviewers gave the school's application an average score of 71.6 out of a possible 108 points. Reviewers expressed concerns about the school's "unproven, untested curriculum;" the application's "minimal amount of detail about the design of the proposed project;" and the absence of any "plan for monitoring the project's budget." Two of the three reviewers stated the school was "not financially viable without CSP funding," and one noted the absence of any "philanthropy organizations or specific grants for future financial support ... to ensure sustainability." After obtaining the grant, the school had to delay its opening because it could not find a location. Recently, the school an-



nounced it will open in a temporary location above a Buffalo Wild Wings at a shopping center for the 2019-2020 school year.

■ **Moore Montessori Community School**, a new charter school in Southern Pines, North Carolina, opened in August 2018 after receiving a four-year grant totaling \$734,000. The school's application has not been posted by the department, but two of its reviewers gave the application identical scores of 71. Both noted the school is anticipating an annual funding shortfall of \$71,500 when the grant ends and the absence of any local philanthropy or fund-raising that would support the project long term. A third reviewer diverged sharply from the other two and rated the application 95, stating "no weaknesses indicated" regarding financial priorities. The department awarded the grant without posting any explanation of the huge disparity in the reviewers' findings.

■ The **Utah County Academy of Sciences Early College High School** in Orem, Utah, won a five-year, \$1,250,000 grant to help expand its grade 10-12 program to ninth grade. The application received an average score of only 72.6 from reviewers. The school's application admits it has a special education population rate of only one percent, compared to the state's average of 10 percent, and an ELL rate of one percent, compared to the state's average of five percent. Reviewers noted the application's general lack of any description of how the school intended to remedy this disparity. All three reviewers remarked on a lack of any kind of detailed financial plan or budget in the application. Reviewers also criticized the application for inadequate descriptions of the school's curriculum program and management plan, with one reviewer slamming the application for its "general statements" and "zero data to substantiate claims." Yet the school was awarded a grant anyway.

# Conclusion

Despite the warnings of the Office of Inspector General and the Center for Media and Democracy's 2016 investigative report, administrators at the federal Charter Schools Program have not learned—or do not care to know—how to prevent federal taxpayer dollars from flowing into the black hole of failed charter schools. From our investigation, we know failure rates are not only likely higher than previous estimates; we also know failures are still rampant. We found scores of charters that opened and then closed after receiving their grants.

CSP has also yet to grasp the significance of the problems posed by providing the vast majority of funding to State Education Agencies, which have proven to be incapable or unwilling to tightly monitor the funds. Our findings show that some of the worst abuse of charter grant funds occurs when SEAs pass that funding along directly to individual charters or charter organizations as subgrants. We found a continuing record of failure in the SEA grant program, with grants going to schools that never opened or closed quickly, to schools that blatantly discriminate in their discipline, curricular, and enrollment practices, and to schools that engage in fraud as well as in related-party transactions that result in private individuals and companies pocketing huge sums of money at taxpayer expense.

The department claims it is unable to stem the flow of good money going to bad results because the states are responsible for oversight. The current Secretary of Education denies the existence of the problem altogether, arguing that stronger oversight of the program would be “inconsistent with the federal role in education.” This impasse leaves American taxpayers with the expectation that public funds intended to proliferate the privately-managed charter school marketplace will continue to be subject to unavoidable waste, fraud, and abuse.

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These are all signs of a reckless program that is asleep at the wheel as huge sums of money are wantonly wasted on schools that, even if they ever opened their doors, often do not resemble high-quality, equitable schools at all.

CSP touts its record for sending grants to schools with higher percentages of Black and Hispanic students, and students who are eligible for free or reduced-price lunch (a measure of household income). But while that may be true at a national level, our analysis has found charter school grants frequently go to schools with student populations that do not reflect the demographics of students in the surrounding traditional public schools.



CSP also claims that grantee charter schools served a similar percentage of students with disabilities and limited English proficient students as traditional schools. But here again, national comparisons mask the numerous examples we found where CSP-funded charters enroll lower percentages of these student than the surrounding schools—sometimes blatantly discriminating against them, as shown in the example of York Academy Charter School, noted above. Multiple schools we examined enroll dramatically fewer percentages of students with disabilities than the surrounding schools.

Finally, based on our investigation into the most recent rounds of grant awards to SEAs and non-SEAs in 2017 and 2018, we contend the quality of the applications and the receiving grantees are likely getting worse. Applications are often worded in vague generalizations with little or statistical data to back up their lofty promises. The reviewers the department hires to rate the applications are increasingly more critical of the quality of applications and are more apt to score applications lower on the department's criteria, yet the grants are awarded anyway. Although CSP gives notice online that it would periodically update its public data set, it has not done so since December 2015.

These are all signs of a reckless program that is asleep at the wheel as huge sums of money are wantonly wasted on schools that, even if they ever opened their doors, often do not resemble high-quality, equitable schools at all.

# Recommendations

The U.S. Department of Education has not, in our opinion, been a responsible steward of taxpayer dollars in regard to its management of the Charter Schools Program. It has not responsibly responded to the concerns of its own Office of Inspector General regarding the lack of supervision of federal funds once they are released at the state and local levels.

The program's ultimate authority rests with Education Secretary Betsy DeVos, who believes that the promulgation of choice for the sake of choice is a public good, and that the marketplace should be the ultimate decision maker regardless of the cost to the American taxpayers and to the children whose lives are disrupted when they attend a school that suddenly goes belly-up. This philosophy will result in increased waste as more charter schools with even less chance of success are funded simply because they provide choice.

Therefore, we recommend that the department take the following actions to stem the financial malfeasance and education inequities enabled and tolerated by the Charter Schools Program:

## **Immediately:**

- Congress should end funding for new CSP grants even as it investigates past grants and grants in progress.

- Congress should require the department to conduct a thorough review of the awards process to address the concerns raised by this report and should direct the department to implement all recommendations from the Office of Inspector General through previous audits, and to report to Congress on that implementation.

## **For previous grant awards whose terms have expired:**

- The department should immediately update its database, by state, of all charter schools that have been awarded federal SEA, non-SEA, CMO, or other program grant money, with the year(s) of disbursement and amount awarded. This public record should be updated every year hereafter. There has not been a publicly available update since 2015.
- The Office of the Inspector General should be given the authority and staff to conduct a complete investigation of charter schools receiving grant funds through both the SEA and non/SEA program streams, that never opened or opened and then closed within three years of the grant's termination, to determine whether the schools committed fraud, theft, or mismanagement and to rec-

commend actions to claw back wasted funds when possible.

- The department should hire an independent program auditor to conduct an investigation of charter schools receiving grant funds through both the SEA and non/SEA programs, to ascertain if grant program expenditures led to education outcomes consistent with CSP's stated goal to create and spread high-quality schools.

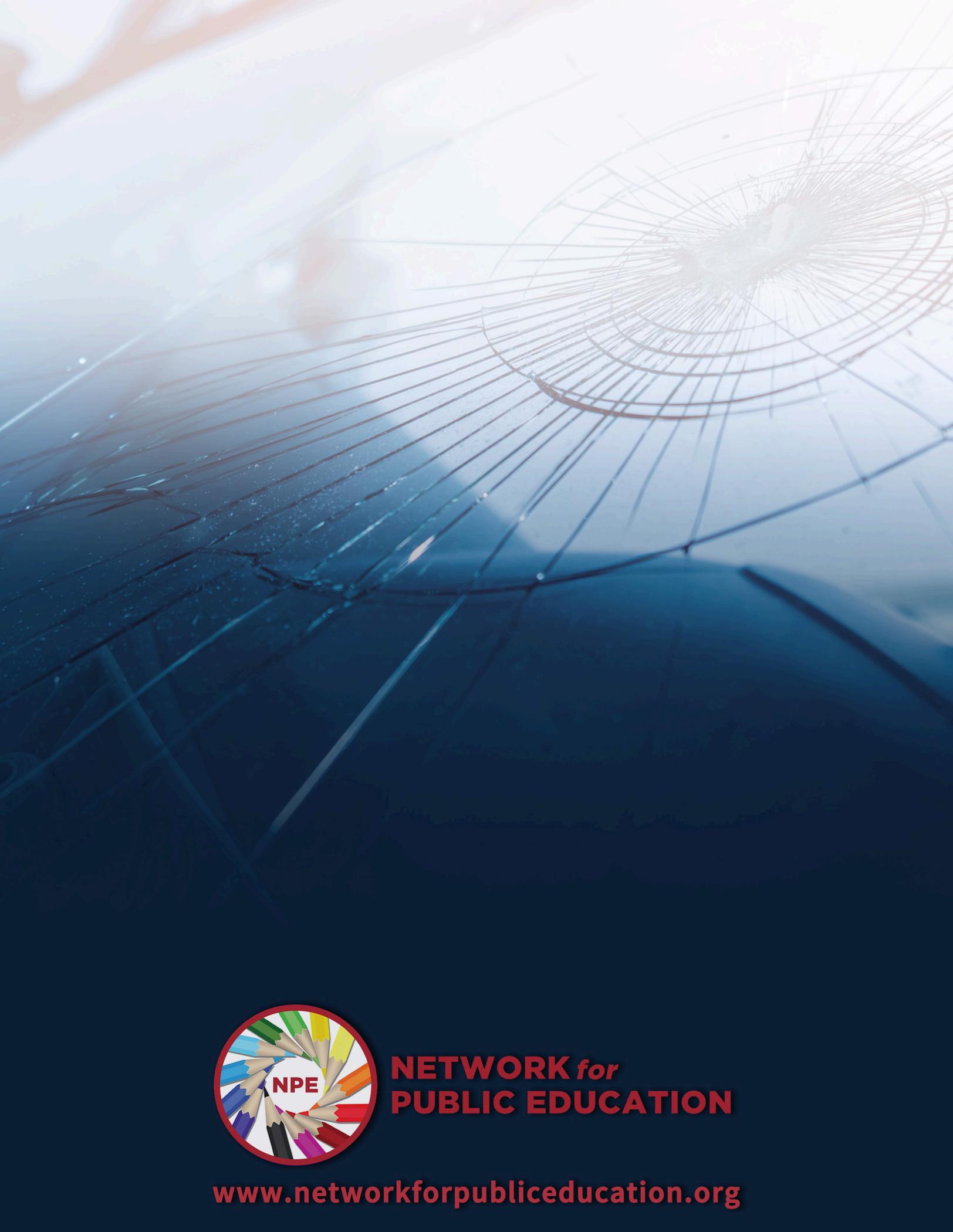
#### **For grants previously awarded still within term:**

- CSP should notify the department of any charter school grant awardee that has yet to open or has opened but already closed and provide a full accounting of how funds were spent.
- Prior to further disbursements, CSP should require SEAs and non/SEA grant recipients, including CMOs, to provide information on program financials, including annual budgets, compensation of key staff, assets acquired using grant money, and information about contractors compensated with grant funds.
- Prior to further disbursements, CSP should require SEA and State Entity grant recipients to provide information on subgrantees including the subgrantee's application, the criteria for the applicant's approval, and the amount allotted to each awardee.
- The department should contract with an outside auditor to review all applications of grantees still within term for accuracy of claims made to secure the grant.

In its responses to the OIG, the department makes it clear that it does not have the capacity nor the authority to supervise spending on what it refers to as “its investments.” If indeed all the capacity and authority rests with authorizers and

state agencies, then it is those agencies that should provide what the department refers to as “start-up capital” for new charter schools and replications.

American taxpayers have a right to demand that their tax dollars not be wasted. Tax dollars that flow to charter schools that never opened or quickly close should not be considered the cost of doing business. And a program with a stated commitment to spread “high-quality” schools should not be a major funding source for schools that leave families in the lurch and promote discriminatory enrollment practices that increase segregation and unequal opportunity for students with disabilities, behavioral challenges or English language learner status. We cannot afford to continue to pump hundreds of millions of dollars into a program whose stewards are clearly asleep at the wheel.



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