

# Education Department slammed for charter school oversight — by its own watchdog office

By **Valerie Strauss** October 5 at 1:03 PM

The Education Department has for more than 10 years poured in excess of \$3 billion into the creation and operation of charter schools, but according to a new audit by the agency's own inspector general's office, it has failed in some cases to provide adequate oversight and as a result has put its own grants at risk.

The audit, titled, "Nationwide Assessment of Charter and Education Management Organizations" and conducted by the department's inspector general (see below), looked at the relationship that several dozen charter schools have had with their own charter management organizations (CMOs). It found, among other things that there were "internal control weaknesses" related to the schools' relationships to their CMOs that were so severe that the department's own program objectives were at "significant risk." And it says:

The Department's internal controls were insufficient to mitigate the significant financial, lack of accountability and performance risks that charter school relationships with CMOs pose to Department program objectives.

The newly released report comes just as the department announced \$245 million in new grants to state educational agencies and CMOs under its Charter Schools Program, which funds the creation and expansion of charters around the country. The Charter Schools Program has invested more than \$3 billion into these schools since 1995, helping more than 2,500 charter schools open. The Education Department's announcement of the new grants says:

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"Through the CSP, the Department is committed to supporting the continued growth of excellent public charter schools that are closing equity gaps and improving student outcomes, and these schools' community

engagement and public accountability.”

According to the audit, however, the department didn't do enough to ensure that some of the charter schools it is funding have been able to reach the stated goals. It says in part:

We determined that charter school relationships with CMOs posed a significant risk to Department program objectives. Specifically, we found that 22 of the 33 charter schools in our review had 36 examples of internal control weaknesses related to the charter schools' relationships with their CMOs (concerning conflicts of interest, related-party transactions, and insufficient segregation of duties)....

We concluded that these examples of internal control weaknesses represent the following significant risks to Department program objectives: (1) financial risk, which is the risk of waste, fraud, and abuse; (2) lack of accountability over Federal funds, which is the risk that, as a result of charter school boards ceding fiscal authority to CMOs, charter school stakeholders (the authorizer, State educational agency (SEA), and Department) may not have accountability over Federal funds sufficient to ensure compliance with Federal requirements; and (3) performance risk, which is the risk that the charter school stakeholders may not have sufficient assurance that charter schools are implementing Federal programs in accordance with Federal requirements.

We also found that the Department did not have effective internal controls to evaluate and mitigate the risk that charter school relationships with CMOs pose to Department program objectives. The Department did not have controls to identify and address the risks related to CMO relationships because it did not believe the risk to be materially different than risks presented by other grantees that received Department funds. In addition, Department officials stated that OII uses a risk-based strategy in the monitoring and administration of CSP grants. Further, the Department did not implement adequate monitoring procedures that would provide sufficient assurance that it could identify and mitigate the risks specific to charter school relationships with CMOs. With the exception of the SIG and the CSP non-SEA programs, the Department did not include in its monitoring tools any steps to review the relationships between charter schools and CMOs or to review the SEAs' oversight of those relationships.

Also, the Department did not ensure that SEAs monitored the relationships between charter schools and CMOs in a manner that would have addressed financial risk, lack of accountability, and program performance risk. This occurred in part because the Department did not collect and analyze information needed to perform a risk assessment and then tailor its monitoring procedures accordingly. Without performing a risk assessment, the Department did not provide guidance to SEAs related to the potential risks posed by charter schools with CMOs.

As a result, the Department's internal controls were insufficient to mitigate the significant financial, lack of accountability and performance risks that charter school relationships with CMOs pose to Department program objectives.

Vanessa DeScazi, school communications manager for the National Alliance for Public Charter Schools, said in a statement that the organization takes “seriously” any concerns about how federal funds are spent, but also insisted that some CMOs have strong outcomes for low-income students. And she criticized the audit itself, saying:

“In terms of advice for policymakers, it is unfortunate that the report makes no distinction between nonprofit CMOs and for-profit education management organizations (EMOs) — organizations with very different structures both in federal and state law, as well as school operations.

According to the National Education Association, several of states and CMOs that have received federal funds this year for charter schools had previously won grant money and some problems were discovered. A post written by NEA President Lily Eskelsen García said:

- Denver School of Science and Technology (DSST) received a grant of as much as \$9 million in the latest round of awards despite a recent report warning that DSST may have paid up to \$50 million over a four-year period to a for-profit management company owned by two DSST board of directors.
- Louisiana will receive a grant that could reach nearly \$8 million. A recent study reported that Louisiana charter schools “have experienced millions in known losses from fraud and mismanagement so far,” and could have losses in the tens of millions of dollars each year. Since 2005, Louisiana has spent approximately \$700 million on charter schools that currently have not exceeded a D or F rating.
- California could receive nearly \$50 million from the latest CSP grant and will receive more than \$25 million in 2016 alone. California previously received an up to \$254 million grant in 2010. A 2015 study reported that more than 200 charters have closed in California, nearly one out of every five that have opened, due to a range of issues including financial mismanagement, unsafe school conditions, and material violations of the law.

Florida, too, was a winner in the latest round of grants, winning \$58.4 million for 2016 and possibly a total of \$70.7 million. In Florida, for-profit CMOs rule in the charter world, and hundreds of charter schools have had to close amid financial problems and other scandals.

You can read more:

[a02m0012\[3\]](#) by [The Washington Post](#) on Scribd

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# Nationwide Assessment of Charter and Education Management Organizations

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## FINAL AUDIT REPORT



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Valerie Strauss covers education and runs The Answer Sheet blog. [Follow @valeriestrauss](#)

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