The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants

FINAL AUDIT REPORT

ED-OIG/A02L0002
September 2012

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

September 25, 2012

Memorandum

TO: James H. Shelton
Assistant Deputy Secretary
Office of Innovation and Improvement

FROM: Patrick J. Howard /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report
The Office of Innovation and Improvement's Oversight and Monitoring of the
Charter Schools Program's Planning and Implementation Grants
Control Number ED-OIG/A02L0002

Attached is the subject final audit report that covers the results of our review of the Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants at Washington, DC, from August 1, 2007, through September 30, 2011. An electronic copy has been provided to your audit liaison officer. We received your comments on the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Daniel P. Schultz at (646) 428-3888.

Enclosure

TABLE OF CONTENTS

Abbreviations, Acronyms, and Short Forms Used in This Report

34 C.F.R	Title 34 of the Code of Federal Regulations
Arizona SEA	Arizona Department of Education
California SEA	California Department of Education
CFDA	Catalog of Federal Domestic Assistance
Department	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965, as amended
Florida SEA	Florida Department of Education
G5	Department's Grants Management System
LAUSD	Los Angeles Unified School District
LEA	Local Educational Agency
Non-SEA grant	Charter School Program Non-State Educational Agencies Planning and Implementation Grant (CFDA 84.282B)
OII	Office of Innovation and Improvement
OMB	Office of Management and Budget
SEA	State Educational Agency
SEA grant	Charter School Program State Educational Agencies Planning and Implementation Grant (CFDA 84.282A)

EXECUTIVE SUMMARY

The objectives of our audit were to determine whether the U.S. Department of Education (Department), Office of Innovation and Improvement (OII) (1) had effective oversight and monitoring to ensure grantees of the Charter Schools Program's State Educational Agency (SEA) Planning and Implementation Grant (SEA grant) and the Charter School Program non-SEA Planning and Implementation Grant (non-SEA grant) met grant goals and objectives and (2) ensured that SEAs have effective oversight and monitoring to ensure subgrantees of the SEA grant met the goals and objectives of the grant. Our review covered the grant period August 1, 2007, through September 30, 2011.

To accomplish the objectives of this audit, we reviewed OII's monitoring procedures for both the SEA grant and non-SEA grant. We judgmentally selected three SEAs to use as case studies to aid in answering our objective. The SEAs selected were the California Department of Education (California SEA), the Arizona Department of Education (Arizona SEA), and the Florida Department of Education (Florida SEA). We made these selections based on a risk matrix we developed of SEAs that received the SEA grant during our audit period. For the non-SEA grant, we reviewed all of OII's files on charter schools in Arizona that received the non-SEA grant during our audit period.

We determined that OII did not effectively oversee and monitor the SEA and non-SEA grants and did not have an adequate process to ensure SEAs effectively oversaw and monitored their subgrantees. Specifically, OII did not have an adequate corrective action plan process in place to ensure grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities.

In addition, we found that OII did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. We identified internal control deficiencies in the monitoring and oversight of charter schools that received the SEA grant at all three of the SEAs we reviewed. Specifically, we found that none of the three SEAs

- adequately monitored charter schools receiving the SEA grants,
- had adequate methodologies to select charter schools for onsite monitoring, or
- monitored authorizing agencies.

Additionally, the Florida SEA did not track how much SEA grant funding charter schools drew down and spent. The California SEA had unqualified reviewers performing onsite monitoring.

We also found that OII did not ensure SEAs developed and implemented adequate monitoring procedures for properly handling charter school closures. Specifically, OII did not ensure SEAs had procedures to properly account for SEA grant funds spent by closed charter schools and disposed of assets purchased with SEA grant funds in accordance with Federal regulations.

We recommend that the Assistant Deputy Secretary—

- develop and implement policies and procedures for issuing and tracking corrective action plans for each monitoring finding or specific recommendation made as a result of monitoring reports produced, to ensure all reported deficiencies are corrected timely;
- develop and implement a risk-based approach for selecting non-SEA grantees for monitoring activities;
- develop and implement policies and procedures for monitoring grantee fiscal activities, specifically for quarterly expenditure review and annual review of Single Audit reports;
- establish and implement requirements for SEAs to develop a detailed monitoring plan explaining the extent of monitoring that will be conducted during an SEA grant cycle;
- provide necessary guidance and training to SEAs for the development and implementation of procedures to ensure SEAs have effective monitoring and fiscal controls for tracking the use of funds; 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 accordance with Federal regulations.

We provided a draft of this report to OII. In OII's response, dated August 30, 2012, OII agreed with our findings and recommendations except for Recommendation 1.1, for which OII stated that it did not believe that tracking subgrantee corrective action plans was feasible for the Charter School Program staff. As a result, we revised Recommendation 1.1.

We have summarized OII's comments and our response after each finding. A copy of OII's response is included as Exhibit B.

BACKGROUND

Charter schools are nonsectarian, publicly funded schools of choice exempt from certain State and local regulations. In return for reduced governmental regulation, charter schools agree, in the form of a charter, to be held accountable for their academic and financial performance. To date, 41 States and the District of Columbia have enacted laws allowing for the establishment of charter schools.[1] Charter school laws differ from State to State. Some common differences among State charter school laws are (1) the types of charter schools that can operate in the State, (2) the limit, if any, on the number of charter schools that can operate in the State, (3) the type and number of entities that can authorize charter schools in the State, (4) the level of legal autonomy and requirements charter schools are exempt from,[2] and (5) the level of fiscal autonomy and funding a charter school can receive.

State charter school laws assign authorizers with the governance to approve charter applications, oversee and ensure compliance, review and renew contracts, and close charter schools. State charter school laws allow for various types of authorizers. The National Association of Charter School Authorizers has identified six types of authorizers: (1) higher education institutions, (2) independent chartering boards, (3) school districts or local education agencies (LEAs), (4) Mayor/Municipalities, (5) not-for-profit organizations, and (6) SEAs. Generally, once an authorizer approves an application, the authorizer drafts a charter contract that outlines the time period of the charter school contract, requirements for the governing board and bylaws, exemptions to traditional school legal obligations, performance goals, the number of schools allowed under the charter, fiscal goals, and reporting requirements. According to the National Conference of State Legislatures, authorizers are also required to monitor school progress and compliance.

Office of Innovation and Improvement

OII oversees charter school competitive grant programs, including the SEA and non-SEA grants. OII's duties are to administer and improve the quality of programs and activities that are designed to encourage the establishment of charter schools.

Funding

OII's Charter School Program office provides funds to create new, high-quality public charter schools, as well as to disseminate information about charter schools with a proven track record. The Charter School Program also provides funds to replicate and expand successful schools, help

---

[1] The nine states that do not have charter school laws are Alabama, Kentucky, Montana, Nebraska, North Dakota, South Dakota, Vermont, Washington, and West Virginia.

[2] Charter schools may request waivers for certain requirements that public schools are normally required to follow.

charter schools find suitable facilities, and pay for national activities and initiatives that support charter schools. The largest portion of Charter School Program funds are used to plan and start up new charter schools and disseminate information about existing charters in States with charter school laws. Two competitive Charter School Program grants offered by OII are SEA grants, Catalog of Federal Domestic Assistance (CFDA) 84.282A, and non-SEA grants, CFDA 84.282B.

Grants that Flow Through SEAs (SEA grants)
The SEA grant is available to all States, including the District of Columbia, that have statutes specifically authorizing the establishment of charter schools. As defined in the Elementary and Secondary Education Act of 1965, as amended, (ESEA) Title V, Part B, Subpart 1, Section 5202(c)(2), SEA grants awarded by the Secretary to eligible grantees or subgrants awarded by SEAs shall be for a period of not more than 3 years. During the 3 years, no more than 18 months may be used for planning and program design and no more than 2 years may be used for the initial implementation of a charter school. SEAs can also apply for a waiver from OII, which extends the 3-year grant cycle to 5 years.

Direct Grants to Individual Charter Schools (Non-SEA grants)
The non-SEA grant is available in the States that do not currently have an approved SEA grant application under the Charter School Program grant. The goals and terms of the non-SEA grant are the same as the SEA grant; however, the charter schools apply directly to OII for these funds instead of through the SEA. The 3-year grant cycle varies depending on when the charter school submitted its application to OII.

The SEA and non-SEA grants are broken up into two phases: the planning phase and the implementation phase. The planning phase is defined as the activity occurring after a charter school is approved but before it opens.[3] The implementation phase is defined as activity occurring after a school opens. Per ESEA, Title V, Part B, Subpart 1, Section 5202(c)(2), charter schools are allotted up to 18 months for planning. For the SEA grant, each SEA determines the duration for the planning phase. For the non-SEA grant, OII determines the duration of the two phases. During our audit period, August 1, 2007, through September 30, 2011, the total award amount for the SEA and non-SEA grant was $908,946,593 and $31,284,442, respectively. See Table 1 for Charter School Program funds OII awarded to its grantees for fiscal years 2007–2011.

---

[3] According to OII, the non-SEA grant can be awarded before a charter school acquires an approved charter from its respective authorizer.

Table 1: OII Award Amount

Fiscal Year	SEA Grant	Number of Grantees*	Non-SEA Grant	Number of Grantees*
2007	$184,710,219	29	$6,988,633	45
2008	175,346,562	24	6,585,646	40
2009	184,836,034	13	4,760,909	29
2010	174,196,309	18	6,530,417	33
2011	189,857,469	18	6,418,837	43
Total Funds	$908,946,593	-	$31,284,442	-
* We do not total the numbers of grantees because most of the grantees overlap in each of the fiscal years.				

Monitoring

From September 2007 through September 2011, OII contracted with WestEd, a company that performed monitoring visits of SEA and non-SEA grantees. The contract requires WestEd to develop and implement monitoring activities that would provide OII with data to assess the compliance and performance of grantees as well as to identify areas in need of additional support or guidance. WestEd also provided technical assistance to help grantees understand the program requirements and expectations and to increase grantee capacity to support the creation of high-quality charter schools. Additionally, WestEd was required to assess the extent to which SEA and non-SEA grantees had implemented their approved grant projects in compliance with ESEA, Title V, Part B, Subpart 1, Public Charter Schools Program statutes, regulations, and guidance. WestEd conducted annual site visits for a sample of SEA grantees in their second grant year and performed both site visits and desk audits for a sample of non-SEA grantees also in their second grant year. Site visits consisted of interviews with key officials, data collection, and review of relevant documentation. The desk audits consisted of a review of documentation and conference calls. Documentation included background information and initial data for assessing the charter school's performance. Conference calls consisted of interviews with key officials from the charter school. After completing site visits and desk audits, WestEd drafted monitoring reports that addressed grantee performance on specific indicators.

OII also contracted with WestEd to collect data. Under this contract, WestEd obtained performance data from the SEAs of the charter schools that received funding and reconciled it with the SEA-supplied data already contained in the Department's EDFacts system.[4] The performance data collected consisted of individual charter school information, funding data, enrollment data, and charter school status data.

---

[4] EDFacts is the Department's system that centralizes performance data supplied by SEAs with other data assets, such as financial grant information, within the Department for use in policy development, planning, and management.

State Educational Agencies

For our audit, we examined three SEAs that received the SEA grant, one of which also had charter schools that received the non-SEA grant. We examined the California, Arizona, and Florida SEAs. Table 2 details SEA and non-SEA grant funding by States per year.

Table 2: Total SEA and Non-SEA Grant Award Amounts

Grant Type	2008	2009	2010	2011	Total
California SEA Grant	$10,500,000	$47,978,242	$51,769,620	$71,640,825	**$181,888,687**
Arizona SEA Grant	-	14,024,105	-	6,377,894	**20,401,999**
Arizona Non-SEA Grant	3,219,786	1,381,552	904,640	-	**5,505,978**
Florida SEA Grant	33,694,684	-	12,529,382	21,420,201	**67,644,267**
Total	**$47,414,470**	**$63,383,899**	**$65,203,642**	**$99,438,920**	**$275, 440, 931**

California SEA

California was the second State to enact charter school legislation after lawmakers passed the Charter Schools Act of 1992. The first charter school in California opened in 1993. As of April 2011, California had 911 active charter schools, 230 of which were awarded the SEA grant during fiscal years 2008 through 2010.[5] The California SEA referred to the SEA grant as the Public Charter School Grant Program. The State law increased the number of charter schools allowed in California from 100 to 250 by the end of school year 1999 and allowed the State to increase the number of charter schools by 100 annually thereafter. State law capped the number of charter schools that could operate in California to no more than 1,450 in 2011.

According to the California SEA, a grant application process was conducted for applicants to apply for the SEA grant. The California SEA also stated that each application was thoroughly screened before it was sent to two consultants for review and scoring. The consultants scored the applications based on elements from a rubric, and the minimum passing score for each element was a three out of four to receive Charter School Program funds. The Charter Schools Division director made the final approval for all applications with passing scores. The California SEA prepared grant award notifications and sent them to all approved applicants.

California has three types of authorizers: (1) local school districts, (2) county boards of education, and (3) the State Board of Education. If a local school district rejected a charter school application, the charter school applicant could appeal the determination and submit the application to the county board of education. If the county also rejected the application, the applicant could submit the charter application to the State Board of Education for authorization.

---

[5] The California SEA did not begin to disburse 2007–2010 SEA grant cycle funds until 2008.

For our audit period, the California SEA had the highest award of SEA grant funds and highest number of subgrantees across all of the other SEAs receiving the SEA grant. The California SEA was awarded $181,888,687 in SEA grant funds during fiscal years 2008 through 2011. During fiscal year 2008, OII did not award the California SEA its requested budgeted amount because the California SEA used the remaining 2004–2007 SEA grant to fund charter school activities occurring in fiscal year 2007. It awarded each subgrantee up to $600,000 of SEA grant funds to plan and implement new charter schools. The California SEA awarded SEA grant funds in three phases: (1) Planning, (2) Implementation Year 1, and (3) Implementation Year 2. Depending on school enrollment, SEA grant funds were awarded in the following manner:

- Planning—$100,000 to $250,000
- Implementation Year 1—$100,000 to $200,000
- Implementation Year 2—$50,000 to $150,000

The California SEA's intent for the SEA grant was to provide startup and initial operating capital to assist schools in establishing high-quality, high-performing charter school operations for California students.

Arizona SEA

The Arizona State Legislature passed its Charter School Law in 1994, and the Arizona SEA applied for an SEA grant in 2009. As of September 2011, Arizona had more than 500 charter schools in the State. However before 2009, several charter schools in Arizona were awarded non-SEA grants directly from the OII.[6] Arizona SEA officials stated that charter schools applied for non-SEA grants because the Arizona SEA did not know it was eligible to apply for the SEA grant. Since the Arizona SEA's receipt of the SEA grant in 2009, new charter schools apply directly to the Arizona SEA in order to receive Charter School Program funds. The Arizona SEA grant is a competitive startup grant, referred to as the Arizona Charter School Incentive Program. Only 33 charter schools were approved to receive the Arizona SEA grant. In addition, Arizona SEA officials stated Arizona did not cap the number of charter schools that could apply for and receive a charter to open in Arizona.

The Arizona SEA conducts a grant application process once a year. A panel of five peer reviewers used a scoring rubric to review each application. According to the Arizona SEA, the scoring process was rigorous and an application needed an average score of 75 out of 100 to be considered for approval.

The Arizona SEA has the following three types of authorizers: (1) the Arizona State Board of Charter Schools, (2) the State Board of Education, and (3) school districts or LEAs. The Arizona State Board of Charter Schools authorized most charter schools. Charter school applicants could submit an application to any of the three types of authorizers. If the application was rejected, an applicant could revise and resubmit an application to the same entity. Charter school applicants

---

[6] The non-SEA grant allowed charter schools to apply directly to OII to receive Charter School Program funds.

could request technical assistance from the entity to which they applied to improve their charter application.

For fiscal years 2008 through 2011, the Arizona SEA was awarded $20,401,999 for the SEA grant. In fiscal year 2009, the Arizona SEA did not award all of its SEA grant funds to subgrantees. Therefore, OII did not award to the Arizona SEA its fiscal year 2010 SEA grant. For the fiscal years 2008 through 2011, charter schools in Arizona were awarded $5,505,978 in non-SEA grant funds. The Arizona SEA awarded SEA grant funds in three phases: (1) Planning, (2) Program Design, and (3) Initial Implementation. Each charter school was eligible to receive a maximum of $230,000 per year for the three phases.

Florida SEA

The Florida legislature passed its first charter school law in 1996. In 1996, five charter schools opened and served about 600 students. For fiscal years 2008 through 2011, the Florida SEA was awarded $67,644,267 in SEA grant funds. In fiscal year 2008, the Florida SEA did not award all its SEA grant funds to subgrantees. Due to a no-cost extension on its 2005–2008 SEA grant, the Florida SEA was required to administer its 2008–2011 SEA grant over the course of two years instead of three. Therefore, OII did not award the SEA grant to the Florida SEA in fiscal year 2009. As of the 2010–2011 school year, about 156,000 students in 42 school districts attended about 459 charter schools in the State. The Florida SEA did not have a cap on the number of charter schools that could operate within the State. Only LEAs can serve as charter school authorizers in Florida; an attempt to create a State authorizer was found unconstitutional.

The Florida SEA grant award process is competitive. The Florida SEA does not make final decisions for grant award until all applications are received and evaluated. Five reviewers score each charter school application on a 100-point scale. The reviewers then discard the high and low scores and average the remaining three scores for a final grade. The reviewers' scores are sorted and ranked in a Priority Funding List that is submitted to the commissioner for approval. An application must receive a minimum score of 70 to be placed on this list. The Florida SEA uses the Priority Funding List to decide which charter schools receive the grant.

Since 2003, the Florida SEA has awarded the SEA grant in three phases. For the 2009–2012 request for proposal period, a new school eligible for all three phases of the program could be funded as follows:

> (1) Planning—$25,000
> (2) Implementation Year 1—$200,000 (1–200 students) or $250,000 (201+ students)
> (3) Implementation Year 2—$50,000

According to Florida SEA officials, funding for each year of Implementation is contingent on the Florida SEA verifying that the charter school is complying with all program goals and requirements.

AUDIT RESULTS

We determined that OII did not effectively oversee and monitor the Charter School Program grantees and did not have an adequate process to ensure SEAs conducted effective oversight and monitoring over subgrantees. Specifically, OII did not have an adequate corrective action plan process in place to ensure grantees were correcting deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities. We also found that OII did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. In addition, OII did not ensure SEAs developed and implemented adequate monitoring procedures for properly handling a charter school closure. Specifically, OII did not ensure SEAs had procedures to properly account for SEA grant funds spent by closed charter schools and disposition of assets purchased with SEA grant funds in accordance with Federal regulations.

FINDING NO. 1 – OII Did Not Conduct Effective Oversight of Grantees Receiving the SEA and Non-SEA Grants

OII did not conduct effective oversight of SEAs and charter schools receiving the SEA and non-SEA grants. Specifically, we found that OII did not

- require that grantees and subgrantees develop corrective action plans to address monitoring issues and deficiencies identified,
- have a risk-based approach for selecting non-SEA grantees for monitoring, or
- adequately review SEA and non-SEA grantees' fiscal activities.

Lack of an Adequate Corrective Action Plan Process

OII did not require that grantees and subgrantees develop corrective action plans to address monitoring issues and deficiencies identified in WestEd's monitoring reports. This occurred because OII did not have policies and procedures in place to ensure grantees corrected deficiencies noted in monitoring reports. In addition, OII did not follow up effectively on issues identified in monitoring reports. OII did not take any alternative means to ensure corrective action took place, such as including followup activities in the WestEd contract if OII did not have adequate resources to perform this function itself. As a result, OII was unaware of whether grantees and subgrantees took corrective actions to address issues that WestEd identified in its monitoring reports.

SEA Grant

For recipients of the SEA grant, we reviewed the monitoring and oversight performed by WestEd for California, Arizona, and Florida SEAs as part of our audit. WestEd issued

monitoring reports for all three States during fiscal years 2008–2011, including a revisit monitoring report for Florida. WestEd identified instances of noncompliance in the subgrant application and award process, Charter School Program quality and performance, and administrative and fiscal responsibilities in all three SEAs. OII did not require the SEAs to develop corrective action plans in response to the identified noncompliance. OII officials stated that the only corrective action it took was followup phone calls to grantees when monitoring reports identified "serious" issues. The report recognized a serious issue that the SEA was not in compliance with ESEA, Title V, Part B Public Charter Schools Program statutes, regulations, and guidance. For example, WestEd's report cited that the Florida SEA could not demonstrate substantial progress in meeting its application objectives and improving educational results for all students.

Out of the three SEAs we examined, OII was able to provide support for followup activities it conducted in response to deficiencies identified only in the Florida SEA's 2008 monitoring report. For California and Arizona, OII could not provide support to show whether all deficiencies listed in the monitoring reports were corrected.

Florida Monitoring Report
The Florida SEA's first monitoring report, issued in November 2008, identified many serious deficiencies that were similar to issues we identified during our audit (**Finding No. 2**). OII made its only documented followup phone call to the Florida SEA in April 2011 (29 months later), regarding the deficiencies noted in the monitoring report. According to OII's documentation, all deficiencies noted in the 2008 monitoring report were deemed "resolved" without any supporting documentation. Since our audit work identified issues similar to the deficiencies WestEd identified in 2008, we concluded that OII's determination that all identified deficiencies were resolved was not accurate. Both WestEd and our audit noted that Florida left most subgrantee monitoring to the LEAs. Further, OII's followup phone call process was not effective for ensuring deficiencies identified in WestEd's monitoring reports were correctly resolved.

In addition, by the time OII made its documented followup phone call to the Florida SEA to address deficiencies identified in 2008, WestEd had already conducted its second monitoring visit of the Florida SEA in February 2011. In fact, according to OII documentation, WestEd's February 2011 monitoring visit was mentioned during that followup phone call. WestEd went on to issue its second report in July 2011. We concluded that OII waited for WestEd to conduct its second monitoring visit of Florida, almost 3 years after the first one was conducted, before following up with deficiencies noted on the first monitoring report. The revisit monitoring report did not note any serious deficiencies in Florida, finding that "Florida has demonstrated the necessary program management and fiscal controls to meet the application's objectives." Our audit work in the Florida SEA found the contrary.

Non-SEA Grant

For recipients of the non-SEA grant, we reviewed charter schools in Arizona that received the non-SEA grant during the fiscal years 2007–2010. Of the 17 charter schools in Arizona that received the non-SEA grant during the fiscal years 2007–2010, 11 received WestEd monitoring visits. We examined the monitoring reports for all 11 charter schools as part of our audit. For

the 11 monitoring reports we examined, OII could not provide support for any corrective actions to rectify the significant deficiencies noted. Significant deficiencies WestEd noted in its monitoring reports of these 11 charter schools included (1) Federal definition of a charter school was not met; (2) parents and other members of the community were not involved in the planning, design, and implementation of the school; (3) lack of a high-quality strategy for assessing the achievement of the non-SEA grant objectives; (4) uses of Charter School Program funds were not allowable, allocable, and reasonable; (5) lack of fiscal control and fund accounting procedures; and (6) financial and programmatic records related to the Charter School Program funds were not adequately maintained. OII did not have documentation in its files to support adequate followup to the non-SEA charter school grantees. OII did not require any of the charter schools to develop corrective action plans in response to the WestEd monitoring reports.

OII did not implement an adequate corrective action plan for SEA or non-SEA grantees to ensure they corrected instances of noncompliance noted in the WestEd monitoring reports. OII stated that, for SEA grant recipients, it was the SEA's responsibility to verify whether its subgrantees complied with applicable laws and regulations. OII's use of followup phone calls to grantees did not ensure the grantees would resolve significant deficiencies identified in WestEd monitoring reports in a reasonable amount of time.

Lack of Risk Model for Selecting Non-SEA Grantees to Monitor

During our audit period, OII did not use an adequate risk model to select non-SEA grantees to monitor. OII officials stated that it did not use a written risk model to select non-SEA grantees for monitoring, nor could they explain the risk factors used to select non-SEA grantees to monitor.

OII selected SEA and non-SEA grantees each year for WestEd's onsite monitoring. WestEd's monitoring period covered the grantee's first grant year to the time of the site visit. Grantees were generally in the second year of a 3-year grant at the time of monitoring. Only SEA grantees were monitored in their first grant year; in the second through fourth grant years, both SEA and non-SEA grantees were monitored. According to WestEd, only a sample of non-SEA grantees could be monitored within the scope of the contract. Over the course of three years, OII selected 21 of 39 total non-SEA grantees for monitoring. Eleven of them were located in Arizona, six in Missouri, and the remaining four were in Hawaii, Rhode Island, North Carolina, and Oklahoma.

Using a risk assessment approach for selecting grantees to monitor can help determine which grantees have the highest risk of being noncompliant with grant objectives and can therefore be useful in determining which grantees to monitor.

Lack of Fiscal Activities Monitoring

OII did not review SEA and non-SEA grantees' fiscal activities as part of its monitoring activities. Specifically, OII could not provide evidence that grantee's expenditure information was reviewed as required by the Department's "Handbook for the Discretionary Grant Process,"

nor could OII provide evidence that grantees' A-133 audit reports were reviewed as required. In addition, a review of A-133 audit reports was not part of WestEd's monitoring review.

Lack of Adequate Expenditure Review

For the three SEA grantees we reviewed, OII could not provide evidence that it reviewed expenditure information using the Department's grants management system (G5) as required.[7] OII officials stated that they reconciled expenditures with G5 annually; however, we could not find adequate evidence in the SEA grantee folders that OII performed this activity. The OII Charter School Division director stated that OII needed to improve their process for collecting and reconciling expenditures with information in the G5 system.

For the 11 non-SEA grantees we reviewed, OII could not provide evidence that it reviewed expenditure information using the G5 system as required. Three of the 11 non-SEA grantees had G5 reconciliations included in the files; however, OII reconciled expenditure data only when the charter school completed the grant cycle.

Reconciling expenditure information using the G5 system's cash disbursement data is an important step in determining whether the rate of cash draws is consistent with the expected expenditure pattern for a charter's approved scope of work and milestones. By identifying problems early in a charter school's period, OII can work with the grantee to resolve issues involving cash drawdowns, fiscal responsibility, types of expenditures, and compliance with applicable laws and regulations.

Lack of A-133 Audit Review

For all of the SEA and non-SEA grantees we reviewed, OII could not provide documentation that A-133 audit reports were completed and submitted for review annually. OII stated that it does not have a procedure to compare A-133 audit reports with WestEd's monitoring reports, nor does it have a policy in place to ensure that grantees comply with the Office of Management and Budget (OMB) Circular A-133 audit requirements. According to Section 5.3.8 of the Department's "Handbook for the Discretionary Grant Process," OII should determine whether the grantee was required to submit an A-133 audit report and whether the grantee is in compliance with the OMB Circular A-133 audit report requirements.

Section 5.3.7 of the Department's "Handbook for the Discretionary Grant Process" states that program staff must develop the most appropriate form of monitoring for each grant. This could include telephone reviews, reports, milestone evaluations, or written communication. The staff should consider grantee risk factors and should time monitoring activities to allow for corrective actions if necessary.

---

[7] G5 is designed to enhance and increase program performance monitoring, improve communications with system users, and fast-track grant award processing.

Further, Section 5.3.8 of the Department's "Handbook for the Discretionary Grant Process" indicates that program staff must review a grantee's expenditure information on a quarterly basis or more frequently if the grantee is experiencing problems. Reviewing the information in the G5 system is an effective way to determine whether the rate of cash draws was consistent with expected expenditure patterns. The staff should also use any available audit information to assist in its grant monitoring. Before performing any monitoring activity, the program staff should access and review available audit data to determine whether the grantee was previously found to be in compliance with OMB Circular A-133 audit requirements. Additionally, staff must document all monitoring activity in each grantee's official file. This includes corrective actions or specific recommendations for each finding. Staff should also try to standardize required documentation.

In addition, the "Standards for Internal Control in the Federal Government," issued by the Government Accountability Office, outlines the five standards for internal control: control environment, risk assessment, control activities, information and communication, and monitoring. These standards define the minimum level of quality acceptable for internal controls. These standards also explain that monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved.

Furthermore, OMB Circular A-123 explains that basic management controls in the strategies, plans, guidance, and procedures that govern programs and operations must be incorporated by agency managers. Specific management control standards that should be incorporated include the following:

- Recording and Documentation—transactions should be promptly recorded, properly classified, and accounted for in order to prepare reliable financial and other reports. The documentation must be clear and readily available for examination.
- Resolution of Audit Findings and Other Deficiencies—managers should promptly evaluate and determine proper actions in response to known deficiencies and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters.

OII lacked internal controls to ensure it fully followed the Department's "Handbook for the Discretionary Grant Process." In addition, OII lacked adequate training in fiscal and program monitoring, specifically for SEA and non-SEA grants. OII officials stated that staff assigned to these grants received "ad hoc" training rather than completing a formal training process specific for Charter School Program funds. OII also stated that all Charter School Program employees had received the handbook.

Because OII did not (1) require that grantees and subgrantees develop corrective action plans to address monitoring issues and deficiencies, (2) have a risk-based approach for selecting non-SEA grantees for monitoring, and (3) adequately monitor fiscal activities, there is a heightened risk that grantees were not fully complying with program goals and objectives as well as Federal laws and regulations. As a result, there is increased risk that Department funds were not used for the intent and purpose of the program.

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

1.1   Develop and implement a plan for ensuring that grantees develop corrective action plans
        to address monitoring issues and deficiencies identified in the monitoring reports
        produced. In addition, develop and implement policies and procedures for tracking
        grantees' corrective action plans, for each monitoring finding or specific recommendation
        made as a result of monitoring reports produced, to ensure all reported deficiencies are
        corrected timely. Further, inform SEAs that subgrantee oversight, including corrective
        action plans, will be a monitoring indicator used in the future.

1.2   Develop and implement a risk-based approach for selecting non-SEA grantees for
        monitoring activities.

1.3   Ensure that grantee fiscal activities are being monitored according to the "Handbook for
        the Discretionary Grant Process," specifically for quarterly expenditure review and
        annual review of A-133 Single Audit reports.

OII Comments
OII agreed with Finding 1 and Recommendations 1.2 and 1.3, but it did not totally concur with
Recommendation 1.1. OII agreed with the need to ensure that SEAs effectively oversaw and
monitored subgrantees, including SEAs' oversight of corrective action plans of subgrantees with
identified deficiencies. However, OII did not believe it was OII's role to track subgrantee
corrective action plans directly. In addition, OII stated that because the aggregate number of
active SEA subgrantees was in the hundreds, it was not feasible for the Charter School Program
staff to track individual charter school monitoring findings throughout the year. However, OII
added that it would ensure that SEAs develop corrective action plans for their subgrantees and
track them as part of the SEAs' overall subgrantee monitoring plans.

In addition, OII stated that beginning with the onsite monitoring reports issued during fiscal
year 2012, Charter School Program staff will hold a post-monitoring conference call to discuss
findings, provide technical assistance, and discuss a corrective action plan. OII also stated that
the Charter School Program director and program manager would track and monitor progress
reports and quarterly calls. Further, OII stated that it would ensure that a review of grantee
A-133 and independent audit reports is included as a required step in the onsite monitoring
process.

OIG Response
We revised Recommendation 1.1 as a result of OII's response. In its response to
Recommendation1.1, OII stated it would ensure that SEAs develop corrective action plans for
their subgrantees and track the corrective actions as part of their overall subgrantee monitoring
plans. Until OII has developed and instituted its corrective actions, OII should advise each SEA
receiving the SEA grant of OII's expectations for oversight of subgrantees and followup of
corrective actions to ensure that each SEA knows the minimum acceptable standard of
monitoring.

FINDING NO. 2 – OII's Process for Ensuring SEAs Effectively Oversee and Monitor Subgrantees Needs Improvement

OII did not have an effective process to ensure SEAs effectively oversee and monitor subgrantees receiving the SEA grant. OII did not ensure that SEAs developed and implemented adequate plans for monitoring its subgrantees. OII's "Monitoring Handbook for SEA Grantees" states that SEAs are responsible for ensuring that subgrantees meet the goals and requirements of the SEA grant and the administration and monitoring of the proper use of Charter School Program funds. However, OII stated that an SEA grant application could be approved without a description of the type or frequency of monitoring the SEA would conduct during the grant cycle. OII did not require SEAs to submit a detailed monitoring plan explaining the extent to which an SEA would monitor subgrantees. In addition, OII did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with Federal rules and regulations.

Monitoring procedures developed by WestEd and approved by OII included subgrantee monitoring by the SEA and use of the Charter School Program funds. However, we determined that WestEd was not effective in determining whether SEAs were conducting effective oversight and monitoring.

We identified internal control deficiencies in grant monitoring at the California, Arizona, and Florida SEAs. The five specific issues we identified are shown in Table 3.

Table 3: Issues We Identified at SEAs

Issue	California SEA	Arizona SEA	Florida SEA
A) SEA did not adequately monitor charter schools receiving the SEA grant.	X	X	X
B) SEA did not have adequate methodologies to select charter schools for onsite monitoring visits.	X	X	X
C) SEA did not monitor the authorizing agencies.	X	X	X
D) SEA did not track how much SEA grant funds charter schools drew down and spent.			X
E) Reviewers were unqualified to conduct onsite monitoring of charter schools.	X		

Issue A—SEAs did not adequately monitor charter schools receiving the SEA grant.

California	Arizona	Florida
X	X	X

California SEA

OII did not provide adequate guidance and oversight to the California SEA regarding the development and implementation of monitoring policies and procedures for charter schools that received the SEA grant. California SEA officials stated that they did not remember any followup by OII after the 2009 WestEd monitoring report and that there were no routine meetings between the California SEA and OII. As a result, we identified significant internal control deficiencies in California SEA's monitoring and oversight of its charter schools that received the SEA grant. Specifically, we found that the California SEA

- did not have adequate written policies and procedures for the monitoring of charter schools that received the SEA grant,
- had deficiencies in its monitoring tool, and
- maintained poor support documentation as evidence of its monitoring.

Policies and Procedures

During our site visit, the California SEA could not provide written policies or procedures related to its 2007–2010 SEA grant charter school monitoring or site visits. When asked, we were referred to the California SEA Request for Applications addressed to California charter schools.[8] The California SEA staff who completed the 2007–2010 SEA grant cycle monitoring tool stated that they received minimal guidance for properly completing a monitoring visit. The California SEA had 13 staff members conducting monitoring visits during the 2007–2010 SEA grant cycle. California SEA staff members did not receive training before conducting site visits. One staff member mentioned feeling "awkward" conducting site visits due to a lack of knowledge and experience (see **Issue E** for more details). On a few occasions during our site visit, the California SEA Charter School Division director asked the audit team for guidance related to how to perform charter school monitoring.

Monitoring Tool

The California SEA monitoring tool did not contain enough detail to ensure that its oversight of the program met the goals listed in its application to OII or the goals in the charter school's application to the California SEA. The California SEA's Charter School Division director stated that the monitoring tool was primarily a fiscal tool that addressed only certain indicators. The monitoring tool completed by the California SEA during our audit period consisted of a

---

[8] The California SEA Request for Applications was an online application for charter schools for applying for the 2007–2010 SEA grant.

two-page procedure checklist. It was not informative, nor did it contain enough detail to ensure charter schools were meeting goals as listed in their applications or the goals mentioned in the California SEA's application to OII. The monitoring tool captured very little information about the status, progress, or fiscal responsibilities of the monitored schools. A sample 2007–2010 SEA grant cycle monitoring tool is shown at Exhibit A.

Furthermore, during our audit period, the California SEA's Charter School Division had significant turnover. At the time of our site visit, many Charter School Division employees had been employed with the California SEA less than 3 years. The Charter School Division had two different directors during the 2007–2010 grant cycle. The poor monitoring tool and high employee turnover contributed to the inadequate monitoring of SEA grant recipients.

At the time of our visit, the California SEA was developing a new monitoring tool for the 2010–2015 grant cycle. As it was not finalized, we did not evaluate it as part of our audit scope. However, it did appear to be more detailed than the previous one. OII did not provide the California SEA with any guidance in the development of its new monitoring tool.

Supporting Documentation

The California SEA had difficultly providing monitoring reports. For the 82 charter schools it reported to us as having been reviewed, we noted that one was a duplicate and one was incorrectly reported as having been monitored, when in fact it was not. For the 80 charter schools that were monitored, the California SEA was unable to provide 24 monitoring reports for our review. They could readily provide only 32 monitoring reports for our review. Twenty-four reports were not in the monitoring files but were later provided. For the 56 monitoring reports we reviewed, we noted that the California SEA used its monitoring tool inconsistently during its site visits, and it captured very little information about the status and progress of the schools. For example, in Exhibit A, the California SEA had indicated "N/A" under the Evidence Observed/Reviewed and Findings categories for the monitoring items.

As a result of the significant weaknesses we found in California SEA's monitoring and oversight activities, charter schools that received the California SEA grant funds were at a heightened risk for not complying with the grant objectives and goals and applicable Federal rules and regulations.

Arizona SEA

OII did not provide adequate guidance and oversight to the Arizona SEA regarding the development and implementation of monitoring policies and procedures for charter schools that received the SEA grant. Arizona SEA officials stated that OII did not provide guidance on how to monitor and track the use of SEA grant funds. As a result, we identified significant internal control deficiencies in the Arizona SEA's monitoring and oversight of its charter schools that received the SEA grant.

The Arizona SEA awarded and disbursed SEA grant funds to 33 charter schools without a finalized monitoring plan and tool in place. The Arizona SEA was awarded its first SEA grant

for the 2009–2014 grant cycle; however, during our review, the Arizona SEA's official monitoring plan and tool were still being developed. OII approved the Arizona SEA's grant application without requiring information regarding the type and frequency of subgrantee monitoring that the Arizona SEA would perform during the grant cycle.

In addition, the Arizona SEA monitoring team consisted of only two staff members responsible for conducting site visits to charter schools. The site visits were conducted without the use of a completed monitoring tool. Therefore, the monitoring team collected inconsistent data. As a result, the Arizona SEA subgrantees were at heightened risk for not complying with the grant objectives and goals and applicable Federal rules and regulations.

Florida SEA

OII did not provide adequate guidance and oversight to the Florida SEA regarding the development and implementation of monitoring policies and procedures for charter schools that received the SEA grant. Florida SEA officials stated that OII did not provide guidance related to monitoring and tracking the use of the SEA grant. As a result, we identified significant internal control deficiencies in the Florida SEA's monitoring and oversight of its subgrantees that received the SEA grant. Specifically, we found that the Florida SEA

- did not have written comprehensive policies and procedures for the monitoring and oversight of charter schools that received SEA grants;
- could not provide a reliable universe of charter schools that received SEA grants, nor an accurate list of charter schools that received onsite monitoring, desk audits, or closed during the grant cycle; and
- had deficiencies in monitoring and oversight of the charter schools.

Lack of Adequate Policies and Procedures

Although the Florida SEA had a policies and procedures manual, it was in draft format and had not been finalized or revised since January 2010. According to the Florida SEA Charter School Division director, the manual was constantly being updated to reflect changes to the policies and procedures. We reviewed the manual and did not find policies and procedures for desk audits, supervisory review of the monitoring reports, or an adequate corrective action plan for followup of charter school monitoring findings and comments.[9]

Unreliable Universe for Charter Schools

For the 2008–2011 grant cycle, the Florida SEA could not provide a reliable universe of charter schools that received and spent SEA grant funds. The Florida SEA disburses grant funds to the

---

[9] For a desk audit, a Florida SEA grant specialist reviews grant files to ensure that the subgrantee has submitted all required documentation. For onsite monitoring, Florida SEA grant specialists visit the actual charter school locations and use the monitoring tool.

LEAs who are responsible for disbursing these funds to the intended charter school recipient. We could not trace the funds to the charter school recipient because a link could not be established between the Florida SEA's Charter School Division's data and the Florida SEA's Grants Management and Comptroller data. The Florida SEA Charter School Division did not maintain an electronic database that would allow the tracing of electronic records to the charter school project award numbers. The grant award and disbursement data both reside on the Florida SEA's Grants Management and Comptrollers data systems. In addition, the Florida SEA's Charter School director stated that the list of charter schools that were awarded SEA grant funds from 2008–2011, which the director provided to us electronically, should not be relied on.

Furthermore, the Florida SEA did not track, nor could it provide, an accurate list or number of charter schools that received onsite monitoring and desk audits, nor could it provide a reliable number of charter schools that closed during the grant cycle. On multiple occasions, we requested a list of charter schools that the Florida SEA had monitored. The Florida SEA could not provide us with this list, but instead was able to provide only copies of monitoring reports and desk audits from reviewer files. Because the Florida SEA could not provide a reliable universe of charter schools that received grant funds, which schools were monitored, and which schools closed, there was no assurance that we were provided with all of the onsite monitoring reports and desk audit reports. In addition, there is a heightened risk of fraud, waste, and abuse within the Florida SEA Charter School Program.

Deficiencies in the Grant Monitoring Files

Our review of the Florida SEA charter school grant monitoring files revealed several deficiencies in the following areas: (1) monitoring reports were not in the folder, (2) desk audits were not in the folder, (3) there was no evidence of followup on issues identified, and (4) there was no supervisory review. See Table 4 below for our results.

Table 4: Results of Florida SEA Grant Monitoring File Review

Type of Monitoring	Number of Files Reviewed	Monitoring Report Not in Folder	Desk Audit Not in Folder	No Evidence of Followup on Issues Identified	No Supervisory Review
Onsite Monitoring	17	12	N/A	9	17
Desk Audit	14	N/A	0	N/A	N/A
Both Onsite Monitoring and Desk Audit	9	6	1	8	9

Although the Florida SEA's monitoring tool was more detailed than the California SEA's, we found the six grant specialists who were conducting the monitoring visits during the 2008–2011 SEA grant cycle were not properly following the monitoring tool process and procedures. As a result of the significant weaknesses in the Florida SEA's monitoring and oversight activities, charter schools that received the Florida SEA grant funds were at heightened risk for not complying with the grant objectives and goals and applicable Federal rules and regulations.

Issue B—SEAs did not have adequate methodologies to select charter schools for onsite monitoring visits.

California	Arizona	Florida
X	X	X

None of the three SEAs we reviewed had an adequate methodology to select which charter schools would receive onsite monitoring visits during a given year. The California and Florida SEAs did not use an adequate risk assessment or other form of selection process to select charter schools for onsite monitoring. According to California SEA staff members who conducted monitoring visits, they selected charter schools for onsite monitoring based on staff preference for geographic location. Although the Florida SEA selected charter schools for onsite monitoring based on whether the charter school had past management problems, it also selected the charter school based on whether it was colocated with another charter school. The Florida SEA randomly selected additional schools, after its initial selection, until its onsite monitoring visit quota of 50 percent per year was reached. The Arizona SEA planned to visit all charter schools receiving the SEA grant three times per year during each implementation phase. However, Arizona SEA had only two full-time employees dedicated to the administration and monitoring of the SEA grant.

Issue C—SEAs did not monitor the authorizing agencies.

California	Arizona	Florida
X	X	X

None of the three SEAs we examined monitored the authorizing agencies responsible for granting charter school licenses and monitoring charter school progress. Officials at all three SEAs stated that they did not monitor authorizing agencies because they had no authority to do so. The SEA officials believed the State laws did not grant SEAs authority to conduct monitoring of authorizers in the respective state. We reviewed legislation in the three states and found no specific provision requiring, or precluding, the monitoring of authorizers by SEAs. Without proper monitoring of authorizing agencies, SEAs have limited ability to ensure authorizers were approving and granting charters to quality charter schools and providing adequate monitoring to them after they opened.

Issue D—SEA did not track how much SEA grant funds charter schools drew down and spent.

California	Arizona	Florida
		X

The Florida SEA's Charter School Division did not track the amount of SEA grant funds charter schools drew down and spent during the grant cycle 2008–2011. The Florida SEA's disbursement process was decentralized and relied heavily on LEAs drawing down funds on behalf of schools. All funds received by charter schools were drawn down by the LEAs, which

made it impossible to track funds received and spent at the SEA level without the LEA providing additional expenditure information.

We could not determine how much SEA grant funding each charter school received and spent because we could not establish a reliable universe, nor could we trace the funds between the Florida SEA Charter School Division's data and the Florida SEA Grant Management and Comptroller data.

The Florida SEA director received hard copies of monthly reconciliation reports from the Comptroller's system; however, it was unclear how they used these reports. Most of the Florida SEA's Charter School Division data was kept in hard copy format at the grants specialists' desks. When we asked for a common identifier to link the Florida SEA Charter School Division data and the Florida SEA Grants Management and Comptroller data, Florida SEA officials stated that each grant specialist would have to go through each charter school folder to obtain the project award number manually.

Issue E—SEA reviewers were unqualified to conduct onsite monitoring of charter schools.

California	Arizona	Florida
X		

California SEA reviewers were unqualified to conduct onsite monitoring of charter schools. We determined that of the 13 California SEA staff members who conducted onsite monitoring visits during the 2007–2010 SEA grant cycle, 7 did not have the necessary experience to be classified as qualified reviewers, and the California SEA could not provide support for 2 reviewer qualifications.

To determine whether the reviewers were qualified, we examined the reviewer's education and experience level to ensure the reviewers had qualifying experience with charter schools and fiscal matters. California SEA officials explained that employees from other California SEA offices performed monitoring visits because the Charter School Division did not have enough dedicated monitors available. California SEA staff stated that they received minimal guidance on how to properly conduct a monitoring site visit and some staff stated they felt "awkward" conducting the site visits because of their lack of knowledge and experience with charter schools and fiscal matters. Their lack of expertise was a contributing factor as to why the California SEA performed inadequate monitoring for charter schools receiving the SEA grant (see Issue A for more details). The site visit reports were inconsistent, insufficient, and lacked proper review by a supervisor because of the high employee turnover at the California SEA and lack of training provided to reviewers.

Federal law is clear regarding grantee and subgrantee monitoring and oversight. Applicable statutes include Title 34 of the Code of Federal Regulations (34 C.F.R.) § 80.40(a) requiring that grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Also, 34 C.F.R. § 80.20 (b)(2) and 34 C.F.R. §§ 76.730 and 76.731 state that subgrantees must maintain records that adequately identify the source and application of funds and compliance with program

requirements. Subgrantees must also maintain records to facilitate an effective audit. Further, OMB Circular A-133 §___.300(b) requires the auditee to maintain internal controls that provide reasonable assurance that the auditee managed Federal awards in compliance with laws, regulations, and agreement provisions.

The common underlying cause for the multiple SEA issues we found was the lack of monitoring and fiscal control guidance and oversight provided by OII to States receiving the SEA grant. During our visits to the three SEAs, we found that OII did not provide adequate guidance and training detailing (1) how SEAs should set up and implement a monitoring program and (2) how SEAs should track subgrantee expenditures for the SEA grants. OII did not require SEAs to submit a detailed monitoring plan explaining the extent to which an SEA would monitor subgrantees. OII initially stated that for SEA grant recipients, it was the SEA's responsibility to verify whether its subgrantees were complying with applicable laws and regulations. However, during the exit conference, OII agreed that moving forward, it should provide more support and guidance to the SEAs.

Because OII did not provide adequate guidance and direction, there is no assurance that SEAs have developed and implemented adequate plans for monitoring their subgrantees. As a result, all three SEAs we examined had significant weaknesses that resulted in a lack of an adequate system in their monitoring of subgrantees. Specifically, the California SEA used unqualified employees to conduct monitoring visits, the Arizona SEA disbursed SEA grant funds without a completed monitoring tool, and the Florida SEA did not track how much SEA grant funds charter schools drew down and spent. Therefore, the Department's funds may be at risk of misuse and there is no assurance that Department funds were used for the intent and purpose of the SEA charter program.

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

2.1   Establish and implement requirements for the three SEAs that were reviewed to develop a detailed monitoring plan explaining the extent of monitoring that SEAs will conduct during an SEA grant cycle for charter schools and authorizers.

2.2   For the SEAs not visited, determine whether their monitoring plans are sufficiently detailed for charter schools and authorizers.

2.3   Provide necessary guidance and training to SEAs on how to develop and implement procedures to ensure SEAs have effective monitoring and fiscal controls for tracking the use of funds.

OII Comments
OII agreed with Finding 2 and its recommendations. OII stated that the corrective actions for SEAs include reinforcing and communicating expectations, requiring all SEA grantees to submit subgrantee and authorizer monitoring plans, and offering technical assistance and guidance. For the three SEAs we reviewed, OII stated it will establish and implement requirements for each

grantee to develop and implement a detailed monitoring plan. For the three SEAs cited as well as other SEAs scheduled for onsite monitoring during fiscal year 2013, OII will ensure that the Charter School Program's monitoring contractor performs a comprehensive review of SEA practices for monitoring subgrantees and charter authorizers. Furthermore, OII will require future grant applicants to affirm and/or describe how they will monitor subgrantees and authorizers and implement fiscal controls for tracking funds.

OIG Response
OII's planned corrective actions, if properly implemented, appear to address our finding and recommendations.

FINDING NO. 3 – OII Did Not Ensure SEAs Have Adequate Monitoring Procedures for Handling a Charter School Closure

OII did not ensure SEAs developed and implemented adequate monitoring procedures for properly handling a charter school closure. During our review of closed schools in California, Arizona, and Florida, we found that SEAs had inadequate procedures in place on how to handle an SEA grant charter school closure that occurred either before or after the school admitted students. We also found the three SEAs had no detailed written State requirements regarding how a closed charter school and the related authorizer should follow up with unspent funds disbursed to closed schools. Further, the three SEAs had no detailed written State requirements regarding how the authorizers would dispose of or distribute charter school assets purchased with SEA grant funds in accordance with Federal regulations. The California and Florida SEAs stated that the authorizers were responsible for managing assets after a charter school closes. The Arizona SEA stated that it follows Federal regulations if a charter school closed.

In addition, none of the three States we reviewed had procedures for documenting and compiling a list of key individuals associated with closed schools. We found that there were no databases being maintained among the States to track individuals associated with closed schools.

During our review of the three SEAs, we found 26 charter schools that closed after being awarded about $7 million in SEA grant funds during our audit period. Of the 26 closed charter school SEA files we examined, about 35 percent did not have a documented reason for closing. See Tables 5 and 6 for more information on the Charter School Program funds awarded and distributed to the charter schools that closed, and the reasons for charter school closures as documented in the SEA files.

Table 5: SEA Grants Awarded and Disbursed to Closed Charter Schools

State	Number of Closed Schools	Total SEA Grants Awarded	Total SEA Grants Disbursed
California	12	$4,900,000	$4,060,784
Arizona	1	230,000	225,285
Florida	13	1,881,503	Could not determine*
Total	**26**	**$7,011,503**	**Could not determine****

*We could not determine the SEA grant funds disbursed to the Florida closed charter schools because we could not establish a link between the Florida SEA Charter School Division's data and the Florida SEA Grants Management and Comptroller data. See **Finding No. 2, Issue D** for complete details.
**We could not determine the total SEA grant funds disbursed to closed charter schools in the three States because we could not determine Florida's disbursement amounts.

Table 6: Reasons for Charter School Closures Documented in SEA Files

State	Voluntary Closure	Nonrenewal by Authorizer	Never Opened	Involuntary Closure by Authorizer	Unknown	Total
California	4	2	2	2	2	**12**
Arizona	1	0	0	0	0	**1**
Florida	1	0	2	3	7	**13**
Total	**6**	**2**	**4**	**5**	**9**	**26**

California SEA

The California SEA did not adequately document the process for closing charter schools or for tracking closed charter school assets. During our visit to the California SEA, we examined the records of all 12 charter schools that closed after they received the SEA grant. In some cases, these closed schools received SEA grant funds without ever opening to students. The schools reviewed received a total of $4,060,784 in SEA grant funds. Of these 12 charter schools, 4 schools closed for voluntary reasons, 2 schools' contracts were not renewed by the authorizers, 2 schools' contracts were revoked by the authorizer, 2 schools never opened to students, and 2 schools closed unknown reasons.

The California SEA's school files had no followup documentation for any of the 12 closed schools we reviewed. Further, there was no indication of what happened to any assets purchased with the SEA grant funds. Based on our inquiry, the California SEA had to follow up with the authorizers for each of the 12 closed schools to determine how the schools distributed or disposed of the assets. The California SEA was able to provide the status for only 5 of the 12 closed schools' assets. Because we did not visit all the authorizers as part of our testing for this audit, we were not able to follow up on the status of the assets purchased with SEA grant funds.

Arizona SEA

Arizona received its first SEA grant in 2010, and had only one charter school that received the SEA grant and closed. This school received a total of $225,285 in SEA grant funds and closed voluntarily after it completed its grant cycle. Arizona SEA officials stated that the school had no assets that exceeded the Federal regulations threshold. However, the Arizona SEA could not provide written procedures outlining the process for a charter school closure.

Florida SEA

The Florida SEA did not have an adequate process in place for closing of charter schools or for tracking closed charter school assets. In addition, the Florida SEA's Charter School Division could not provide a reliable list of charter schools that closed during the 2008–2011 grant cycle. After conducting our own research, we determined 13 charter schools that received the SEA grant closed either before or after opening to students. However, because the Florida SEA could not provide a reliable list of closed charter schools, there is no assurance that only 13 charter schools closed. According to the Florida SEA Charter School Division data, these schools were awarded a total of $1,881,503 in SEA grant funds. For the Florida SEA, we were able to determine only the amounts awarded (not expended) to the charter schools because of the Florida SEA's decentralized financial reporting system and lack of tracking (see **Finding No. 2, Issue D** for more details). Each school's respective authorizer houses the total amount of funds the school expended.[10] Florida SEA officials stated that authorizers were responsible for ensuring that schools properly disposed of assets. Because we did not visit authorizers as part of our audit, we were not able to follow up on the status of the assets purchased with SEA grant funds.

We reviewed charter school files for all 13 of the Florida SEA's closed schools that received the SEA grant. Of the 13 charter schools, 7 schools did not have reasons for closure, 3 schools were involuntarily closed by their authorizer, 2 schools never opened to students, and 1 school voluntarily closed due to low enrollment. The Florida SEA was unable to provide us with data that related to two schools that closed. For each of the closed schools we reviewed, the schools' files had no information showing what happened to any assets the school purchased with the SEA grant or if any unallowable or unsupported grant expenditures needed to be returned.

According to 34 C.F.R. §§ 76.730 and 76.731, grantees and subgrantees must maintain records that adequately identify the source and application of funds and compliance with program requirements. The records should also facilitate an effective audit. Regarding assets acquired by a closed charter, 34 C.F.R. § 80.32(e) states that if a subgrantee fails to take appropriate disposition actions, then the awarding agency must direct the grantee to take appropriate disposition actions.

OII did not ensure SEAs had policies and procedures in place to properly handle a charter school closure and to dispose of and distribute assets purchased with SEA grant funds in accordance

---

[10] In Florida, the Florida LEA is the authorizer for each charter school.

with Federal regulations. OII failed to provide guidance on how SEAs should properly handle charter school closures and did not follow up with SEAs when SEAs reported that a charter school closed. Adequate procedures for handling an SEA grant charter school closures and for tracking school closures and key individuals associated with the closed schools are imperative for effectively safeguarding OII funds. Absent adequate policies and procedures, OII funds are placed at risk of fraud, waste, and abuse, and OII has no assurance that grantees used funds for the intent and purpose of the program.

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

3.1   Ensure that SEAs develop and implement adequate monitoring procedures for properly handling charter school closures and for properly accounting for Charter School Program funds spent by closed charter schools, including the proper disposition of assets purchased with SEA grant funds in accordance with Federal regulations.

OII Comments
OII agreed with Finding 3 and its recommendation. As part of its fiscal year 2013 corrective actions, OII stated that for all SEAs receiving Charter School Program funds, it would (1) communicate to SEAs their responsibilities and the Department's expectations for handling charter school closure, (2) provide technical assistance and guidance, and (3) require SEA grantees to submit policies and procedures for properly handling charter school closures.

OIG Response
OII's planned corrective actions, if properly implemented, appear to address our finding and recommendation.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objectives were to determine whether the Department (1) had effective oversight and monitoring to ensure grantees of the Charter School Program Planning and Implementation grants met the goals and objectives of the grant and (2) ensured that SEAs had effective oversight and monitoring to ensure subgrantees of the Charter School Program's Planning and Implementation grants met the goals and objectives of the grant. Our review covered the grant period August 1, 2007, through September 30, 2011.

Before conducting our audit fieldwork, we performed initial site visits at OII, WestEd, the California SEA, and the Los Angeles Unified School District (LAUSD) to obtain preliminary information about the Charter School Program and the role of the SEAs and authorizers.[11] To obtain substantive information about the Charter School Program at OII, we did the following:

- obtained an understanding of the awarding and monitoring process of charter school grants including SEA and non-SEA grants;
- obtained an understanding of the requirements applicable to the monitoring and oversight of Federal grant programs at SEAs receiving Charter School Program funds;
- obtained an understanding of OII's internal controls related to the monitoring and oversight of the Charter School Program grants by reviewing OII's policies and procedures and conducting interviews with OII officials;
- interviewed key officials including OII Charter School Program director and supervisory management-program analyst;
- reviewed select provisions of the ESEA, C.F.R, OMB Circulars, and Department's "Handbook for the Discretionary Grant Process," and the Charter School Program Non-Regulatory Guidance; and
- reviewed WestEd's California SEA monitoring report issued in 2009.

To obtain substantive information about the Charter School Program at WestEd, we did the following:

- interviewed key officials including Senior Research Associates and Research Associates;
- obtained an understanding of WestEd's role in the monitoring and oversight of the Charter School Program grants, including reviewing WestEd's monitoring policies and procedures; and
- obtained an understanding of OII's and WestEd's SEA and non-SEA Monitoring Handbooks.

---

[11] We selected LAUSD to visit as part of our initial site work because it was the largest authorizer in California.

To obtain substantive information about the Charter School Program at the California SEA and
LAUSD, we did the following:

- obtained an understanding of the awarding and monitoring process of the SEA grant;
- interviewed California SEA key officials, including the director of the Charter School
  Division and education programs assistant;
- interviewed LAUSD key officials including the executive director and director of the
  Innovation and Charter School Division;
- obtained an understanding of the California SEA's internal controls related to the
  monitoring and oversight of the SEA grant by reviewing its policies and procedures and
  conducting interviews with California SEA officials;
- obtained an understanding of LAUSD's internal controls related to the monitoring and
  oversight charter schools by reviewing LAUSD's policies and procedures and conducting
  interviews with LAUSD officials;
- reviewed selected California State statutes; and
- reviewed the California SEA grant applications for the 2007–2010 SEA grant cycle and
  the 2010–2015 SEA grant cycle.

SEA Grant

To achieve our audit objective for the SEA grant, we selected and examined three SEAs (the
California, Arizona, and Florida SEAs) to use as case studies to aide in answering our
objective.[12] We judgmentally selected these SEAs based on a weighted risk matrix developed of
the SEAs nationwide that received the SEA grant during fiscal years 2007–2011. The risk
matrix ranked SEAs on risk factors that indicated higher risk in the oversight and monitoring of
charter schools. The risk factors used to select the three SEAs were

- amount of SEA and non-SEA grants awarded,
- number of charter schools,
- ratio of charter schools to authorizers, and
- ratio of charter school closures.

In each of the three SEAs selected, we did the following:

- obtained an understanding of the awarding and monitoring process of the SEA grant;
- interviewed key SEA officials, including the directors of each SEAs Charter Schools
  Division, and program and grant specialists from each SEA's Charter Schools Division;
- interviewed key authorizing officials at LAUSD, Arizona State Board of Charter Schools,
  and Duval County Public Schools;

---

[12] The results of this audit cannot be projected to any other SEAs that received the SEA grant because we made our
selection for case study purposes.

- examined SEA grant monitoring policies and procedures to determine whether they were effective in ensuring charter schools were meeting the SEA grants goals and objectives;
- determined the universe of charter schools that received SEA grant funds during the most recent SEA grant cycle;
- determined the number of SEA grant charter schools that received monitoring by the SEA;
  - For each of our monitoring judgmental and random samples, we obtained and reviewed SEA charter school files, onsite monitoring reports and other supporting documents, except for the Arizona SEA,[13] to determine the extent and effectiveness of monitoring of SEA grant charter schools. For each of our judgmental and random samples, except for the Arizona SEA, we reviewed SEA charter school files to ensure the following:
    - the charter schools' grant applications were in the SEA files,
    - there was an indication that charter petitions/contracts were reviewed,
    - there was a copy of the monitoring reports in SEA files,
    - corrective actions were established based on monitoring reports,
    - there was followup conducted on issues noted in the monitoring reports, and
    - the reviewers were qualified to conduct monitoring visits.
- determined the number of charter schools that received SEA grant funds that closed either before or after admitting students and the reason for their closure; and
  - For each of our closed charter schools judgmental samples, we reviewed the amount of funds that were awarded to these charter schools that closed and the extent of monitoring that was performed. For each of our judgmental samples, we reviewed SEA charter school files to ensure that—
    - the charter schools' grant applications were in the SEA files,
    - there was an indication that charter petitions/contracts were reviewed,
    - the SEA was notified timely of the charter school closure,
    - the reason for the charter school closure was documented, and
    - the SEA documented the status of assets purchased with SEA grant funds.
- gained an understanding of the monitoring of authorizers.

Sampling Methodology

During our review, we relied on computer-processed data at the California and Arizona SEAs to determine the universe of charter schools that received SEA grant funding. We did not rely on computer-processed data at the Florida SEA to determine the universe of charter schools that

---

[13] For the Arizona SEA, we did not select a judgmental sample of SEA grant charter schools to review because Arizona did not have an official monitoring plan in place at the time of our visit.

received SEA grant funding due to the data issues we encountered (see the Florida SEA section below for complete details). Because SEAs can apply for the SEA grant in any given year, the three SEAs we reviewed had different SEA grant cycle periods.

California SEA

We relied on computer-processed data provided to us by the California SEA to determine the universe and select our sample of charter schools that received the SEA grant. The California SEA's data consisted of 230 charter schools that received a total of $70,113,762 in SEA grant funds during the California SEA's 2007–2010 SEA grant cycle. To determine whether the data provided by the California SEA were complete and accurate, we compared its charter school data with the G5 system's data. We found that the California SEA's data were sufficiently reliable for the purpose of our audit.

Out of the 230 charter schools in our California SEA universe, we judgmentally sampled all 82 charter schools that received monitoring visits during the years 2009 and 2010 and all 12 charter schools that had their charter revoked, were closed, or never opened. However, for the 82 charter schools, we noted that one was a duplicate and one was incorrectly reported as having been monitored, when in fact it was not. We selected the judgmental sample to determine the extent and effectiveness of the California SEA monitoring of the SEA grant.

Arizona SEA

We relied on computer-processed data provided to us by the Arizona SEA to determine the universe and select our sample of charter schools that received the SEA grant. The Arizona SEA's data consisted of 33 charter schools that received a total of $7,724,266 in SEA grant funds during the 2009–2014 SEA grant cycle. To determine whether the data provided by the Arizona SEA were complete and accurate, we compared its charter school data with the G5 system's data. We found that the Arizona SEA's data were sufficiently reliable for the purpose of our audit.

We did not select a judgmental sample of SEA grant charter schools for the Arizona SEA because the Arizona SEA did not have an official monitoring plan in place at the time of our visit.

Florida SEA

According to the G5 system, the Florida SEA drew down $17,396,481 in SEA grant funds as of November 2011 for the 2008–2011 SEA grant cycle. We could not rely on computer-processed data that the Florida SEA provided to us to determine the universe and select our sample of charter schools that received the SEA grant. Instead, we performed alternative procedures to determine the reliability of the Florida SEA's data because the Florida SEA could not provide sufficient evidence to support how much SEA grant funding was disbursed to each charter school. In addition, the Florida SEA Charter School Division director stated that we should not rely on the data provided. As stated in **Finding No. 2**, we could not establish a link between the Florida SEA Charter School Division's data and the Florida SEA's Grants Management and Comptroller data because the Charter School Division did not maintain a crosswalk that would allow the tracing of electronic records to the charter school project award numbers. We also

could not obtain an accurate list of charter schools that received onsite monitoring or desk audits, nor could we obtain a reliable number of charter schools that closed.

Because of the unreliability of Florida SEA's data, we used alternative procedures to satisfy our objective and review of the Florida SEA's monitoring of SEA grant recipients. Florida SEA officials provided us with electronic copies of 41 onsite monitoring reports and 45 desk audit reports, 5 of which were duplicates. To arrive at our universe for charter schools that were monitored, we removed the 5 duplicate desk audit reports and the 13 charter schools that closed during the grant cycle, leaving a universe of 68 charter schools. Thirty charter schools received onsite monitoring visits only, 29 charter schools received desk audits only, and 9 charter schools received both onsite monitoring and desk audits.

We determined in total there was enough sufficient and appropriate evidence to address the audit objective and support our conclusions. To determine the extent and effectiveness of the Florida SEA's monitoring of the SEA grant, we randomly sampled 17 of 30 charter schools that received only onsite monitoring reports, and 14 of 29 charter schools that received only desk audits. We also reviewed all nine schools that received both onsite monitoring and desk audits. In addition, through our own research, we determined that there were 13 charter schools awarded the SEA grant during the 2008–2011 grant cycle and subsequently closed or never opened, and we judgmentally sampled all 13 to review. Because we had to perform our own research to determine the number of closed schools, there was no assurance that the 13 closed charter schools we identified was a complete list.

Non-SEA grant

To achieve our audit objective for the non-SEA grant, we did the following:

- obtained an understanding of the awarding and monitoring process of the non-SEA grant;
- interviewed key officials at OII, including the Charter School Program director and program analysts;
- examined non-SEA grant monitoring policies and procedures to determine whether they were effective in ensuring charter schools were meeting the non-SEA grants goals and objectives;
- determined the universe of charter schools that received non-SEA grant funds in Arizona during fiscal years 2007–2010;
- determined the number of non-SEA grant charter schools that received onsite monitoring visits and monitoring reports by WestEd;
- obtained and reviewed monitoring reports and other supporting documents to determine the extent of monitoring of charter schools at each State;
- reviewed the amount of funds that were awarded to the schools that closed and the extent of monitoring that was performed; and
- gained an understanding of the monitoring of authorizers.

Sampling Methodology

During our review, we relied on computer-processed data provided to us by OII to determine the universe and select our sample of charter schools that received the non-SEA grant. OII's data consisted of 17 charter schools in Arizona that received a total of $4,967,259 in non-SEA grant funds from fiscal years 2007–2010. To determine whether the data provided by OII were complete and accurate, we compared OII's charter school data in Arizona with the data in the Department's G5 system. We found that OII's data were sufficiently reliable for the purpose of our audit.

Out of the 17 charter schools in our non-SEA grant universe, we judgmentally sampled all 11 charter schools that had received WestEd monitoring visits from 2007–2010 and all 5 charter schools that closed or never opened. We selected the judgmental sample to determine the extent and effectiveness of OII's monitoring of the non-SEA grant.

We conducted our fieldwork at the following locations:

- the Office of Innovation and Improvement, Washington, DC;
- WestEd, Washington, DC;
- the California Department of Education, Sacramento, California;
- the Los Angeles Unified School District, Los Angeles, California;
- the Arizona Department of Education, Phoenix, Arizona;
- the Arizona State Board for Charter Schools, Phoenix, Arizona;
- the Florida Department of Education, Tallahassee, Florida; and
- Duval County Public Schools, Jacksonville, Florida.

We conducted our initial site work from January 10, 2011, through May 5, 2011. We conducted our audit fieldwork from July 27, 2011, through February 16, 2012. We held an exit conference to discuss the results of the audit with OII officials on May 3, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

EXHIBIT A: 2007–2010 California SEA Site Visit Monitoring Tool

2007 – 2010
PCSGP SITE VISIT CHECKLIST

Charter School:

Charter Authorizing Entity:

County:

Staff Reviewer:

Date of Visit:

School Contacts:

Monitoring Item	Evidence Observed/reviewed	Findings	Required correction and due date
Expenditures documentation. Aligned to submitted status reports. May include but is not limited to invoices, receipts, and/or time cards documenting grant-related expenditures			
Written policies and procedures for contracts according to federal requirements. Only required if grant funds are used for contracted services. Evidence should include competitive bid requests, process for review of bids, or reasons for sole source contracts that are in accordance with federal requirements.			
School organizational structure and governance documents. Must match those described in application/charter and provide evidence of non-profit status.			

If applicable, public random drawing procedures and documentation of process actually used. If drawing conducted must be in accordance with federal requirements described in RFA under which school was funded.		
Equipment purchased with grant funds. Must have Inventory list on file and all equipment tagged as federal property if over $5000.		
Progress toward the outcomes and goals of the charter. School is making adequate progress toward its outcomes and goals as stated in the charter petition.		

EXHIBIT B: OII Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INNOVATION AND IMPROVEMENT

August 30, 2012

Daniel Schultz
Regional Inspector General for Audit
U.S. Department of Education, Office of Inspector General
32 Old Slip - 26th Floor
New York, NY, 10005

Subject: Written Comments to the Draft Audit Report, "The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants", ED-OIG/A02L0002, August 2012

Dear Mr. Schultz:

The Office of Innovation and Improvement (OII) appreciates the opportunity to provide written comments and proposed corrective actions to the Draft Audit Report, "ED-OIG/A02L0002", received on August 14, 2012 (Draft Audit Report).

As with all the programs we administer, OII strives to continuously improve the operations of the Charter Schools Program (CSP). Over the last few years, OII has implemented and refined a monitoring and data collection process that has provided increased oversight of grantees, for the purpose of ensuring effective performance and compliance. Subsequent to the period of OIG's review, OII also implemented a risk assessment process for new and continuing awards. While OII has established a number of controls to ensure the appropriate management of grant funds, we recognize the need to ensure that grantees follow through on required actions and comply with grant regulations.

OII's responses to this draft report are detailed below, organized by finding and recommendation, and include Corrective Actions to address the findings and recommendations.

Sincerely,

James H. Shelton, III
Assistant Deputy Secretary for Innovation and Improvement

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

FINDING NO. 1 – OII Did Not Conduct Effective Oversight of Grantees Receiving the SEA and Non-SEA Grants

Specifically, we found that OII did not

- require that grantees and subgrantees develop corrective action plans to address monitoring issues and deficiencies identified,
- have a risk-based approach for selecting non-SEA grantees for monitoring, or
- adequately review SEA and non-SEA grantees' fiscal activities.

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

1.1   Develop and implement a plan for ensuring that grantees and subgrantees develop corrective action plans to address monitoring issues and deficiencies identified in the monitoring reports produced. In addition, develop and implement policies and procedures for tracking grantees and subgrantees corrective action plans, for each monitoring finding or specific recommendation made as a result of monitoring reports produced, to ensure all reported deficiencies are corrected timely.

1.2   Develop and implement a risk-based approach for selecting non-SEA grantees for monitoring activities.

1.3   Ensure that grantee fiscal activities are being monitored according to the "Handbook for the Discretionary Grant Process", specifically for quarterly expenditure review and annual review of A-133 Single Audit reports.

OII Comments and Corrective Actions:

Sub-Element 1.1: OII largely concurs with these findings and recommendations, with the minor exception of the recommendation regarding OII's tracking of corrective action plans for *subgrantees*. While we concur with the need for OII to ensure that SEAs effectively oversee and monitor subgrantees, including SEAs' oversight of corrective action plans of subgrantees with identified deficiencies, we do not believe it is the Department's role to track those *subgrantee* corrective action plans directly. The SEA CSP grant program is specifically designed to delegate oversight of charter school recipients of CSP funding to SEAs, rather than ED monitoring individual charter schools directly. Given that the aggregate number of active SEA subgrantees is in the hundreds, it is not feasible for CSP staff to track individual charter school monitoring findings throughout the year. However, as described under Finding 2, we will ensure that SEAs develop corrective action plans for their subgrantees and track these corrective actions as part of their overall subgrantee monitoring plans.

OII concurs with the need to formalize the corrective action plan process for CSP's SEA and Non-SEA grantees. As part of the on-site monitoring process, OII's monitoring contractor produces a final report that documents findings. For those indicators in which a grantee received a score of "1" or "2" (with a "3" representing an

exemplary rating on the 3-point scale), CSP's policy has been to follow-up with the grantee as part of our ongoing monitoring program. Program Officers are asked to hold monthly calls with grantees to ensure timely resolution of on-site monitoring findings and identified areas of weakness. However, we acknowledge that during the period of OIG's audit CSP did not: 1) clearly communicate and document its corrective action plan follow-up policy and expectation to Program Officers; nor 2) track these follow-ups on a regular basis.

In part, this was due to turnover in the CSP Director and CSP SEA Program staff positions. Fiscal year (FY) 12 was the first year since FY09 in which there was no turnover in the CSP Director position, or attrition among CSP staff.

OII Corrective Actions:

- Increase in CSP Staff: First, at the end of FY11, OII hired a new full-time CSP Director who brings extensive experience in administering ED CSP grants and the financial management and oversight of government programs. In addition, during FY12 the CSP team added three (3) new staff positions to its SEA and Non-SEA grants teams: one (1) new SEA Program Officer; one (1) new Non-SEA Program Officer; and a newly created CSP Program Manager position with supervisory responsibility over the SEA, Non-SEA, and Replication grant programs. OII believes that these additions will provide grants management capacity that will drive improved grantee performance.

- Grantee Corrective Action Plan Process:

  For on-site monitoring visits conducted prior to FY12, CSP staff will confirm that all SEA and Non-SEA active grantees provided evidence demonstrating resolution for each indicator with a rating of "2" or "1". If an item is still pending, CSP will hold monthly calls with each grantee until each issue is resolved.

  Beginning with the on-site monitoring reports issued during FY12 (CSP will issue reports from FY12 Monitoring to SEAs beginning in September 2012), CSP staff will conduct the following activities:

  o Upon issuing a final monitoring report to a grantee, CSP will hold a post-monitoring conference call to discuss findings, provide technical assistance, and discuss a corrective action plan.

  o CSP staff will file corrective action plans, grantee progress reports, and related evidence in each grantee's grant folder. Beginning in the first quarter of FY13, Program Officers are required to conduct quarterly phone calls with each SEA, and semi-annual phone calls with Non-SEAs. These calls will include a discussion of the status of the corrective action plan, until each finding is closed. Submission of the progress reports and completion of the quarterly call will be tracked and monitored by the CSP Director and Program Manager.

  o Grantee failure to address deficiencies and submit the required progress reports will be included in the annual risk assessment process, and could result in special conditions placed upon continuation awards, reduced continuation funding, or in some cases, grant termination.

Sub-Element 1.2: OII concurs with this finding and recommendation. CSP has already implemented a risk-based approach for selecting non-SEA grantees for monitoring, which includes 10 elements which historically have been indicative of either higher or lower risk. These indicators include grant size, delays in opening, and the degree of independent financial accountability.

Sub-Element 1.3: OII concurs with this finding and recommendation and has already taken the following steps to address monitoring of fiscal activities:

- Currently, the CSP staff prepares a monthly report, which is shared with all CSP Program Officers, that documents grantee G5 balances. Program Officers review this report to monitor drawdown activity, noting any unusual trends.

- Regarding A-133 reports, during FY11 ED implemented a new Risk Assessment process for new awards, including new CSP awards, as well as for all grantees receiving continuation awards. This standardized risk assessment process includes a review of grantees' independent audit and A-133 reports. Results of this risk assessment are included in slate memos for new awards. For current grantees' continuation awards, OII created and implemented a new risk assessment that includes a review of grantee audit reports in FY12. For those grantees assessed a higher risk designation OII attaches special conditions to both new and continuation awards. Finally, for higher risk grantees OII requires increased monitoring, which can take the form of more frequent and detailed reporting and more frequent phone calls with the Program Officer.

- OII has secured training opportunities, available to all OII staff, in Federal grant financial management. During FY12, two CSP SEA and Non-SEA staff participated in this training, and for FY13 one Non-SEA Program Officer is confirmed to participate. As a result, the majority of CSP staff will be proficient in monitoring the fiscal aspects of federal grants. In addition, four CSP staff will participate in the FY13 Grants Management Certificate program. All of the professional development opportunities build increased capacity within OII and CSP to ensure effective fiscal oversight of grantee activities.

OII Corrective Actions:

- Regarding grantee drawdown activity, CSP Program Officers will be required to document the following beginning in FY13: 1) that each review was completed; and 2) the results of each review. To provide guidance and direction to staff, CSP will document the policies and procedures regarding this review.

- OII will ensure that a review of grantee A-133 and independent audit reports is included as a required step in the onsite monitoring process.

FINDING NO. 2 – OII's Process for Ensuring SEAs Effectively Oversee and Monitor Subgrantees Needs Improvement.

Issues identified:

Issue A) SEA did not adequately monitor charter schools receiving the SEA grant.
Issue B) SEA did not have adequate methodologies to select charter schools for onsite monitoring visits.
Issue C) SEA did not monitor the authorizing agencies.
Issue D) SEA did not track how much SEA grant funds charter schools drew down and spent.
Issue E) Reviewers were unqualified to conduct onsite monitoring of charter schools.

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

2.1   Establish and implement requirements for the three SEAs that were reviewed to develop a detailed monitoring plan explaining the extent of monitoring that SEAs will conduct during an SEA grant cycle for charter schools and authorizers.

2.2   For the SEAs not visited, determine whether their monitoring plans are sufficiently detailed for charter schools and authorizers.

2.3   Provide necessary guidance and training to SEAs on how to develop and implement procedures to ensure SEAs have effective monitoring and fiscal controls for tracking the use of funds.

OII Comments and Corrective Actions:

OII concurs with the findings and recommendations.

During the period of OIG's review, OII executed the CSP Monitoring Plan, including on-site monitoring visits. The purpose of the CSP Monitoring Plan is to assess the extent to which SEA grantees and non-SEA grantees are implementing their approved grant projects in compliance with the Title V, Part B Public Charter Schools Program statutes and with relevant regulations. The CSP monitoring objectives are threefold:

- Increase CSP fiscal and programmatic accountability at the State and local levels.
- Support and improve grantee capacity in carrying out the purpose of the CSP through the timely and efficient administration of Federal grants awarded under this program and other Federal education programs.
- Assist grantees with the planning and implementation of high-quality charter schools.

Thus, monitoring serves not only as a means for helping grantees achieve high-quality implementation of their CSP grant projects, it also helps OII to be a better advisor and partner in that effort. CSP monitoring efforts are

designed to focus on the results of grantees' compliance with critical requirements of the CSP using available resources and guidance. Information and data from monitoring also help to inform the program's performance indicators under the Government Performance and Results Act.

Two specific components of the CSP Monitoring Plan are particularly relevant to these findings and recommendations. First, Indicator 2.5 entitled "Subgrantee Monitoring" under the CSP Monitoring Protocol is designed to assess SEA grantees' compliance with the statutory and regulatory requirements for monitoring subgrant activities. Grantees with weak or ineffective subgrantee monitoring systems receive lower scores in this indicator. Likewise, Indicator 2.1 entitled "Quality Authorizing Practices" under the CSP Monitoring Protocol is designed to review SEA practices for promoting quality authorizing practices and holding authorized public chartering agencies accountable, to improve the capacity of those agencies to authorize, monitor, and hold accountable charter schools. However, each state has its own charter law and state charter school laws vary regarding the SEA's authority over charter school authorizers.

Since implementing the Monitoring Plan, OII has observed an overall improvement in the quality of SEA subgrantee monitoring efforts, as well as practices for monitoring and holding accountable public chartering agencies. However, we recognize that there are areas for improvement across all SEA grantees.

OII Corrective Actions:

[Recommendation 2.1]:

For the three SEAs reviewed, CSP will establish and implement requirements for each grantee to develop and implement a detailed monitoring plan. At a minimum, those monitoring plans must include the following: 1) methodologies for selecting charters schools for onsite monitoring visits; 2) appropriate selection, training, and preparation for subgrantee monitors; 3) documented policies and procedures—such as a monitoring protocol—for conducting subgrantee monitoring; 4) procedures for tracking grant funds disbursed to subgrantees; and 5) policies and procedures for monitoring and holding accountable public chartering agencies.

As the California SEA is scheduled for onsite monitoring in FY13, OII will ensure that CSP's contractor performs a comprehensive review of California's practices for monitoring subgrantees and authorizers. Submission of detailed monitoring plans, with evidence of their implementation, will be a requirement for each of these three grantees' reporting to CSP and will be considered as part of OII's overall assessment of grantee substantial progress towards grant objectives during FY13.

[Recommendation 2.2 & 2.3]:

For the three SEAs audited, as well as the SEAs not visited by the OIG, CSP will do the following:

- Reinforce and communicate expectations with respect to subgrantee and authorizer monitoring to all SEA grantees through formal, written communication to all SEA Project Directors.

- Offer technical assistance and guidance to all SEA grantees on subgrantee and authorizer monitoring. This will include an extensive workshop during the FY13 SEA Grant Project Directors' conference.
- Require all SEA grantees to submit subgrantee and authorizer monitoring plans—which, at a minimum must address Issues A-E cited in this Finding—for CSP staff review during FY13.
- For SEAs scheduled for onsite monitoring during FY13, OII will ensure that CSP's monitoring contractor performs a comprehensive review of SEA practices for monitoring subgrantees and charter authorizers. As described under Finding 1, OII will hold SEAs accountable for implementing effective systems for monitoring subgrantees and authorizers.

In future grant funding notices under the SEA program, OII will also require applicants to affirm, and/or describe how they will monitor subgrantees and authorizers and implement fiscal controls for tracking funds.

FINDING NO. 3 – OII Did Not Ensure SEAs Have Adequate Monitoring Procedures for Handling a Charter School Closure

RECOMMENDATIONS

We recommend that the Assistant Deputy Secretary for OII—

3.1   Ensure that SEAs develop and implement adequate monitoring procedures for properly handling charter school closures and for properly accounting for Charter School Program funds spent by closed charter schools, including the proper disposition of assets purchased with SEA grant funds in accordance with Federal regulations.

<u>OII Comments and Corrective Actions:</u>

OII concurs with the OIG that SEAs must develop and implement adequate procedures for handling school closures to ensure proper stewardship of CSP funds. It is important to note that ED's authority over individual charter schools extends only to charter schools that receive CSP funds. All grantees and subgrantees are required to comply with EDGAR, and SEAs are required to monitor subgrantee compliance. Currently, "Indicator 3.3: Administration and Use of CSP Funds" of CSP's Monitoring Protocol addresses SEA and SEA subgrantee responsibilities for the accounting, and the use, of Federal funds. Given the risk associated with assets purchased with Federal funds, OII agrees that special attention to appropriate disposition of assets, in accordance with Federal guidelines, is warranted.

OII Corrective Actions:

OII will do the following during FY13:

- Communicate to SEAs their responsibilities and ED's expectations for handling charter school closure—in particular, the disposition of equipment—through channels which may include webinar presentations, technical assistance memos, and grantee project directors' conference presentations.
- Provide technical assistance and guidance to all SEAs on the proper handling of charter school closure and equipment disposition.
- Require SEA grantees to submit policies and procedures for properly handling charter school closures, including ensuring appropriate equipment disposition.