UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

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ED-OIG/A02M0011

Dr. Mitchell M. Zais, Ph.D.
Deputy Secretary
Office of the Deputy Secretary
U.S. Department of Education
400 Maryland Ave., SW
Washington, DC 20202

Dear Dr. Zais:

This final audit report, "Nationwide Audit of Oversight of Closed Charter Schools," presents the results of our audit. The purpose of the audit was to determine whether the U.S. Department of Education (Department) has effective oversight of the programs provided to charter schools and sufficiently monitors State educational agencies (SEAs) to ensure the following:

1. procedures and internal controls are in place to identify the causes for charter school closures and for mitigating the risks of future charter school closures,
2. close-out procedures for Federal funds received by a charter school are performed in accordance with Federal laws and regulations,
3. assets acquired with Federal funds by a charter school that closes are disposed of in accordance with Federal laws and regulations, and
4. student information and records from closed charter schools are protected and maintained in accordance with Federal laws and regulations.[1]

Our review covered school years (SYs) 2011–2012 and 2012–2013 (July 1 through June 30 of the respective years), and focused on the Department and three States with closed charter schools that received Federal funding from SEAs through grants under Title I, Part A (Title I) of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (ESEA); Part B of the Individuals with Disabilities Education Act (IDEA); and the Charter Schools Program (CSP) SEA Planning and Implementation grant.

We also performed follow-up work with the Department in September and October 2017 to determine what updates the program offices made to their procedures for monitoring SEAs' charter school closure processes. The updated procedures addressed some issues related to monitoring and oversight of closed charter schools. We also learned that the Department had issued guidance regarding IDEA (December 2016) and CSP SEA (September 2015 and

[1] This report cites the Federal and State laws, regulations, and policies that were in effect during the audit period, and therefore, may not reflect current Federal and State requirements or practices.

August 2016) requirements related to charter school closures. We considered the impact of the guidance and the updated monitoring procedures on our finding and recommendations.

The three States selected for review were Arizona, California, and Louisiana. We selected these States because they had the highest number of closed charter schools authorized by the same charter school authorizer (Arizona), the largest charter school student enrollment and the most charter schools of any State (California), and the highest ratio of closed charter schools to total charter schools (Louisiana).

Lastly, we include in the Other Matter section of this report a suggestion for the Department related to the issue of student transfers from closed charter schools.

BACKGROUND

Charter schools are nonsectarian, publicly funded schools of choice that are intended to be held accountable for their academic and financial performance in return for reduced governmental regulation. Charter schools can provide instruction in any combination of grades (kindergarten through grade 12) and operate largely independent of school districts. Specific goals and operating procedures for each charter school are detailed in a contract with the charter school authorizer, which is an entity authorized by State charter school law to approve and oversee charter schools. The contract serves as both an administrative and performance agreement. Charter schools are allowed to open only in those States that have enacted a charter school law. As of November 2012, 42 States and the District of Columbia had charter school laws. In SY 2015–2016, there were 98,277 public schools, which included 6,855 charter schools.[2] The following table shows the number of charter school closures from SY 2011–2012 through SY 2014–2015.[3]

Table 1. Charter School Closures from SY 2011–2012 through SY 2014–2015

School Year	Number of Charter School Closures
2011–2012	202
2012–2013	183
2013–2014	284
2014–2015	308

[2] The number of public schools is based on information from the Department's National Center for Education Statistics, as of August 2017. See https://nces.ed.gov/programs/digest/d17/tables/dt17_216.20.asp.
[3] The number of closed charter schools is based on information from the Department's National Center for Education Statistics, as of July 2018. See https://nces.ed.gov/fastfacts/display.asp?id=619.

Based on our review of the charter schools that closed in SYs 2011–2012 and 2012–2013, we found that when a charter was voluntarily surrendered by the charter holder, not renewed or revoked by the authorizer, it was generally because of low enrollment, poor academic performance, financial issues, lack of facilities, or other reasons that included merger with another charter school, transfer to another charter operator, or conversion to a district school. The Center for Education Reform identified similar reasons for why charter schools close in its 2011 report, "The State of Charter Schools, What We Know and What We Do Not About Performance and Accountability,"[4] citing the following as the five most common causes for closure: financial deficiencies, fiscal and administrative mismanagement, academic performance, lack of facilities, and district obstacles.

The Department, SEAs, and local educational agencies (LEAs)[5] share responsibility for ensuring that Federal funds are adequately accounted for and that Federal programs are appropriately implemented. The three programs covered in this report are State-administered programs under which the Department awards direct grants to SEAs and, in turn, SEAs award subgrants to traditional and charter school LEAs (under Title I and IDEA) and charter schools (under CSP SEA). The Department is responsible for oversight and monitoring of SEAs to ensure that they comply with applicable Federal laws and regulations.

The entities that are primarily responsible for overseeing individual charter schools that receive Federal funds under the Title I, IDEA, and CSP SEA programs are SEAs and LEAs. As grantees, SEAs are primarily responsible for overseeing and monitoring subrecipients, including charter schools that are LEAs that receive funding under Federal programs. When a charter school is part of an LEA and receives Federal program funds through that public LEA, the LEA, as a subgrantee, has oversight responsibilities over how those funds are used. Charter school laws, which differ by State, provide additional requirements about State, local, and authorizer responsibilities for accountability and oversight of charter schools. State charter school laws allow authorizers to approve charter applications; oversee and ensure compliance; and review, renew, and revoke charter schools' contracts. Charter schools close when the authorizer does not renew or revokes the charter, or when the charter school voluntarily surrenders its charter. States vary in the types of entities that can be authorizers, such as LEAs, SEAs, institutions of higher education, or independent chartering boards.

We selected three States with charter schools that closed during SYs 2011–2012 and 2012–2013: Arizona (the highest number of closed charter schools authorized by the same charter school authorizer), California (the largest charter school student enrollment and the most charter schools of any State), and Louisiana (the highest ratio of closed charter schools to total charter schools).

[4] The Center for Education Reform is a private organization that advocates for changes that improve educational opportunities. The report is available on its Web site at https://www.edreform.com/wp-content/uploads/2011/12/StateOfCharterSchools_CER_Dec2011-Web-1.pdf.

[5] ESEA defines a "local educational agency," in part, as a public board of education or other public authority legally constituted within a State for either administrative control or direction of, or to perform a service function for, public elementary schools or secondary schools in a city, county, township, school district, or other political subdivision of a State, or a combination of school districts or counties that is recognized in a State as an administrative agency for its public elementary schools or secondary schools.

The authorizers for the closed charter schools in our sample were an independent chartering board (Arizona), LEAs (California), and the State board of education (Louisiana).[6]

Federal Funding for Charter Schools

Charter schools are eligible to receive discretionary and formula Federal grant funding. Our audit focused on three sources of Federal funds:

- Title I, a formula grant awarded to States and, through them, to eligible LEAs, including LEAs with charter schools and charter schools that operate as LEAs. The Office of State Support under the Office of Elementary and Secondary Education (OESE) monitors implementation of Title I by SEAs.[7]
- IDEA, a formula grant awarded to States and, through them, to eligible LEAs, including LEAs with charter schools and charter schools that operate as LEAs. The Office of Special Education Programs under the Office of Special Education and Rehabilitative Services (OSERS) monitors implementation of IDEA by SEAs.
- CSP SEA, a discretionary grant awarded to States, which, in turn, award subgrants to eligible charter schools, including charter schools that are part of an LEA and charter schools that operate as an LEA. The CSP SEA grants are administered by the Charter Schools Program office under the Office of Innovation and Improvement (OII).[8]

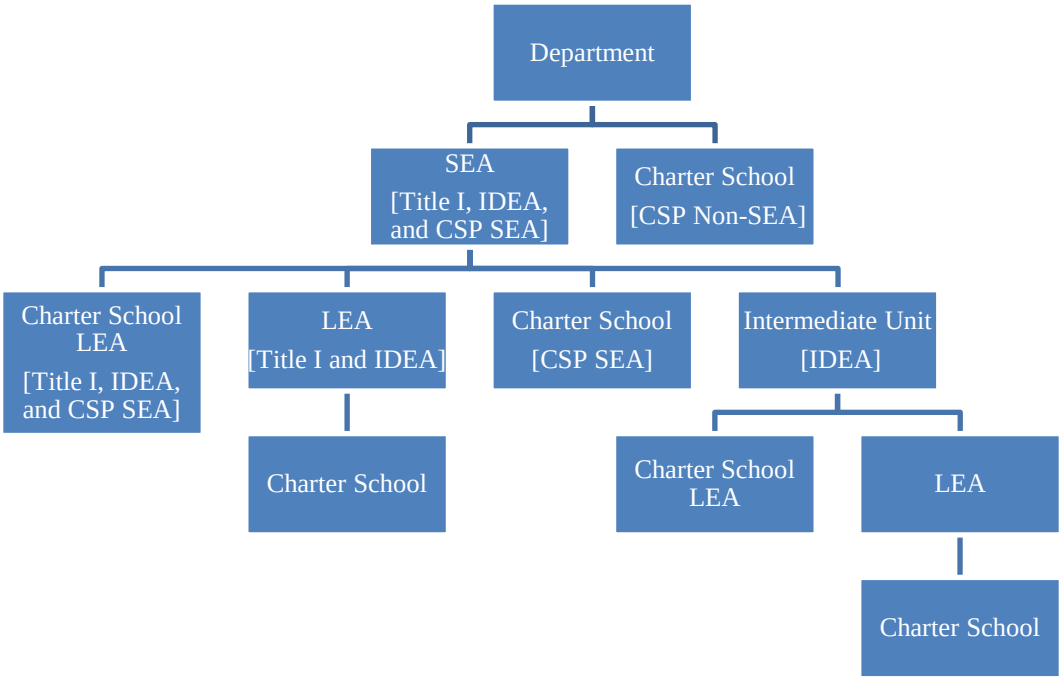
These Federal programs represent the most significant sources of Federal funding for most charter schools. Figure 1 shows the flow of Federal funds from the Department to charter schools.

[6] In our selected States, charter school laws allow the following entities to authorize charter schools: in Arizona, the State board of education, independent chartering board, LEAs, or institutions of higher education; in California, the State board of education, county offices of education, or LEAs; and in Louisiana, the State board of education, LEAs, or local charter authorizers.

[7] The Office of State Support was created in October 2014 through a merger of OESE's Student Achievement and School Accountability Programs, the Office of School Turnaround, the Office of the Deputy Secretary's Implementation and Support Unit, and individual programs from several other OESE program offices. The Office of State Support now administers the Title I program.

[8] None of the sampled closed charter schools received a CSP Non-SEA Planning and Implementation grant, a discretionary grant awarded and monitored by the Charter Schools Program office under OII. Charter schools in the selected States were not eligible to receive the CSP Non-SEA grant because each SEA had an approved CSP SEA grant application. Therefore, our review of the sampled closed charter schools focused on the pass-through grants: Title I, IDEA, and CSP SEA.

Figure 1. Flow of Federal Funds from the Department to Charter Schools



We could not obtain a complete universe of charter school funding information because OESE, OSERS, and OII[9] do not track Title I, IDEA, and CSP SEA subgrants made by SEAs to charter schools, just as they do not track subgrants made to traditional public schools. When a charter school is considered an LEA under a Federal formula grant program and is eligible to receive Federal funds under that program, then the funds may flow from the SEA directly to the charter school LEA. Under the CSP SEA program, which is a discretionary grant program, charter schools that are part of an LEA, as well as charter school LEAs, may receive funds from the SEA. SEAs also do not track funds at the charter school level and, therefore, we could not obtain accurate information regarding charter school funding for all closed charter schools in our judgmental sample. The Department awarded over $1.4 billion in CSP SEA grants from fiscal year (FY) 2009 through FY 2016. In addition, from FY 2012 through FY 2017, the Department awarded on average per year over $14.5 billion in Title I grants and over $11.5 billion in IDEA grants that passed from SEAs to LEAs, including charter schools that operate as LEAs.

Selected States

In their role as pass-through entities for Title I, IDEA, and CSP SEA grants, the three selected SEAs were primarily responsible for oversight of LEAs, including LEAs with charter schools and charter schools that operated as LEAs. However, based on State charter school law or other State requirements, the SEAs often shared the responsibility or passed it on to the charter school authorizer or an LEA if the charter school received funds through a traditional public LEA. In instances where a charter school received funds through a traditional public LEA, the LEA handled the charter school closure. Table 2 presents the oversight responsibility for the charter school closure process among the selected States at the SEA, LEA, and authorizer level for the

[9] OESE, OSERS, and OII are program offices for the Title I, IDEA, and CSP SEA grants we reviewed as part of this audit. Therefore, we refer to OESE, OSERS, and OII as Title I, IDEA, and CSP program offices.

sampled closed charter schools. We performed work in the three States for 89 charter schools that closed in SYs 2011–2012 and 2012–2013. Our review included 45 closed charter schools in Arizona, 31 in California, and 13 in Louisiana.

Table 2. Oversight Responsibilities for the Charter School Closure Process

Entity	Causes for Closure	Grant Closeout	Disposition of Assets	Student Records
Arizona SEA	Yes	Yes	Yes	Yes
Arizona LEA	No	No	No	No
Arizona Authorizer	Yes	No	No	Yes
California SEA	Yes	Yes	Yes	Yes
California LEA	No	Yes	Yes	Yes
California Authorizer	Yes	Yes	Yes	Yes
Louisiana SEA	Yes	Yes	Yes	Yes
Louisiana LEA	No	Yes	Yes	Yes
Louisiana Authorizer	Yes	No	No	Yes

A "Yes" indicates the respective entity was responsible for performing and documenting the procedure.

Arizona

The SEA was responsible for the grant closeout and the disposition of assets purchased with Federal funds but shared responsibility with the authorizer regarding identifying the causes for and mitigating the risk of future charter school closures, and the protection of student records. In Arizona, a public body, private person, or private organization that contracted with a charter authorizer to operate one or more charter schools was called a charter holder and functioned as an independent LEA.[10] Each charter holder received subgrants under Federal programs and interacted with the SEA similar to any public school district in the State. All charter school education program funding was processed and monitored directly through the SEA. Each SEA division and unit interacted directly with the charter holder. Once the Title I, IDEA, or CSP SEA grant was approved, the charter holder submitted periodic "payment requests" against budgeted line items. If a charter school violated specific laws and regulations, the SEA had the authority to reduce or withhold funds and communicated the relevant information to the charter school authorizer; however, the SEA had no authority to revoke the charter. This responsibility was with the charter school's authorizer. The CSP SEA office developed charter school closure procedures in January 2013 in response to the OIG's 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, September 25, 2012.[11]

The authorizer, an independent chartering board established to authorize and oversee the operations of charter schools in Arizona, was responsible for approving charter applications; monitoring schools' performance; and reviewing, renewing, or revoking charter contracts. However, in its role as the authorizer under State charter school law, it did not have any authority over Federal funds provided to charter schools and did not perform financial closeout and

[10] The authorizer does not receive funds from the SEA.
[11] The report is available on the OIG Web site at http://www2.ed.gov/about/offices/list/oig/auditreports/fy2012/a02l0002.pdf.

disposition of assets for closed charter schools that received Title I, IDEA, and CSP SEA grants. Further, the authorizer was independent from the SEA, which had no statutory authority to monitor or oversee the authorizer.

California

The charter school authorizers were responsible for the charter school closure process. The SEA published charter school closure guidance on its Web site that was based on the California Education Code, but the charter school authorizers were responsible for the oversight and monitoring of the closure procedures. All sampled closed charter schools in California were authorized by LEAs. Charter schools authorized in accordance with California law, no matter how they are operated and governed, are part of the public school system. Most Federal and State education funds in California pass from the State to the County Treasurer and each charter school has to make a choice how it wants to be funded, directly from the SEA or through an LEA. Direct-funded charter schools may receive funds that pass from the State to the County Treasurer.[12] For these schools, the SEA used a reimbursement method for Federal funds, but the first payment was advanced at the rate of 25 percent for Title I and IDEA grants and 22.5 percent for the CSP SEA grant of the total annual allocation. Then, the school requested additional payments up to the entitlement amount based on the quarterly expenditure reports. Two of the 31 closed charter schools we sampled were indirect-funded charter schools and received funding through the LEAs, which were also the schools' authorizers.

Louisiana

The SEA performed most of the charter school closure activities. In SY 2011–2012, the SEA developed its charter school closure checklist, "Framework for the School Closure and Transfer Process," and performed annual reviews of closed charter schools authorized by the Louisiana State board of education. The State board of education was the authorizer of all sampled closed charter schools in Louisiana; however, the authorizer relied on SEA staff to perform many of its duties, including monitoring, oversight, and closure of charter schools receiving Federal grants. One of the authorizer's responsibilities was to direct the SEA to review and evaluate charter schools' academic, financial, and legal and contractual performance annually. It would then use the SEA's recommendation to determine whether to renew or extend a charter's contract based on these three categories of a charter school's performance. Further, Louisiana State charter law allowed 5 types of charter schools, of which we reviewed 1 Type 4 and 12 Type 5 charter schools. Type 4 charter schools had a charter between an LEA and the State board of education and operated as a school governed by the LEA. Type 5 charter schools were preexisting public schools transferred to the Recovery School District and operated as independent LEAs with boards of directors that governed schools' finances, operations, and administration. The Recovery School District was a special State school district administered by the SEA and dedicated to turning under-performing schools into successful schools. In SY 2014–2015, there were 23 Type 1, 33 Type 2, 13 Type 3, and 1 Type 4 charter schools and 64 Type 5 Recovery School District-operated charter schools.

[12] According to the California Education Code § 47651(b), on or before June 1 of each year, a charter school may elect to receive its funding directly, instead of having it disbursed to the LEA that granted its charter. Such election applies to all funding that the charter school is eligible to receive.

AUDIT RESULTS

We found that the Department's oversight and monitoring of the selected SEAs by the Title I, IDEA, and CSP program offices was not effective to ensure that the SEAs performed the charter school closure process in accordance with Federal laws and regulations. Specifically, we found that the Department did not provide adequate guidance to SEAs on how to effectively manage charter school closures. In addition, the Department did not monitor SEAs to ensure that SEAs had an adequate internal control system for the closure of charter schools. As a result, we found that the SEAs did not ensure all applicable Federal requirements for the sampled closed charter schools for SYs 2011–2012 and 2012–2013 were consistently performed and documented. During our follow-up work with the Department in September and October 2017, we found the program offices had updated some of their SEA monitoring procedures. We found that the Title I and CSP program offices' SEA monitoring procedures addressed some issues related to monitoring and oversight of closed charter schools, but we did not verify whether the new procedures have been fully implemented. The IDEA program office's new monitoring protocol did not specifically address charter school closures. The updated procedures are noted in each respective program office's monitoring section of the Finding.

The SEAs generally had procedures and controls to identify the causes for charter school closures and for mitigating the risks of future charter school closures. However, the SEAs did not always meet the Federal and State requirements when (1) performing close-out procedures for Federal funds a charter school received, (2) disposing of assets a charter school acquired with Federal funds, and (3) protecting and maintaining student information and records from closed charter schools. For 46 of the 89 charter schools we reviewed, we found that the SEA and/or authorizer did not ensure that Federal funds were properly closed out within 90 days of the school closure as required by Federal laws and regulations.[13] The SEA and/or authorizer also did not ensure that assets acquired with Federal funds were properly disposed for 65 of the 89 charter schools. In addition, for 39 of the 89 charter schools, the SEA and/or authorizer did not ensure that student information and records were protected. For additional details regarding the selected States and the sampled closed charter schools reviewed, see Attachment 2 of this report.

In its comments on the draft report, the Department did not explicitly agree or disagree with our finding and did not agree with our recommendations. The Department stated that the fundamental principle that guides States' implementation of charter schools is to provide charter schools increased levels of autonomy. The Department also stated that our recommendations, if implemented, would be inconsistent with the Federal role in education, and asked that we include only a single recommendation that recognizes the balance between Federal and State responsibility for the oversight of charter schools.

Despite the Department's concerns, it described in its comments actions it has taken in recent years that address some of the issues noted in our report. These actions included the issuance of

[13] States with charter school laws have additional State requirements that define the roles and responsibilities of the SEAs, the authorizers, and the charter schools.

Dear Colleague Letters with information on charter school closure requirements. Based on the Department's comments, we made technical and clarifying changes to the report and added information on recent actions the Department has taken. We also considered the Department's suggestion for changes to our recommendations and incorporated language where appropriate. We summarized the Department's comments at the end of the finding and included the full text of its comments as Attachment 3 of this report.

FINDING – The Department Did Not Ensure That Oversight of the Charter School Closure Process Was Effective

We found that the Department's oversight and monitoring of the selected SEAs by Title I, IDEA, and CSP program offices was not effective to ensure that the SEAs performed the charter school closure process in accordance with Federal laws and regulations. We found that the Title I, IDEA, and CSP program offices did not always (1) provide adequate guidance to the SEAs regarding their charter school closure procedures and (2) sufficiently monitor the SEAs to ensure they had an adequate internal control system regarding charter school closures. OII provided some technical assistance to the SEAs in April 2013 related to subgrantee monitoring and charter school closure procedures, but OII did not ensure that the selected SEAs revised their charter school closure processes. As a result, the Department lacked assurance that the SEAs ensured all applicable Federal requirements for the closed charter schools were consistently performed and documented.

The Department Did Not Provide Adequate Charter School Closure Guidance

The Department did not provide adequate guidance to the SEAs related to the closure of charter schools receiving Title I, IDEA, and CSP SEA funds during the audit period. OESE and OSERS did not provide adequate guidance to the SEAs regarding charter school closure policies and procedures. OESE's Title I guidance focused on the SEAs ensuring LEAs complied with Title I allocation and use of funds, maintenance of effort, comparability, supplement not supplant, internal controls, and reporting requirements. On September 23, 2013, OESE issued a Dear Colleague Letter that provided guidance to SEAs on Title I allocations for new and significantly expanded charter schools. However, OESE's guidance did not address how SEAs should handle the closure of charter schools receiving Title I funds. OSERS program officials provided guidance to the SEAs related to the implementation of the IDEA program. In addition, OSERS program officials conducted annual IDEA leadership conferences and provided SEA officials with conference materials and presentations. However, neither of these activities addressed closure of charter schools receiving IDEA funds.

Further, on December 28, 2016, OSERS issued guidance titled, "Frequently Asked Questions about the Rights of Students with Disabilities in Public Charter Schools under the Individuals with Disabilities Education Act." This guidance addressed questions regarding IDEA requirements, including IDEA obligations related to charter school closures and corresponding fiscal and recordkeeping responsibilities.

OII also did not provide adequate guidance to the SEAs regarding the charter school closure process. OII issued guidance on the CSP SEA program in July 2004 and again in January 2014, but it lacked information on charter school closures. In addition, OII provided technical assistance to each of the selected SEAs which included the charter school closure process.

However, OII did not ensure that SEAs took corrective action when OII identified procedures that needed improvement. According to OII's CSP director, in response to the OIG's 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, September 25, 2012,[14] OII requested that the 22 SEAs receiving CSP SEA funds provide copies of their charter school closure procedures. All 22 SEAs with open CSP SEA grants submitted their charter school closure procedures. The OII official stated that the purpose for obtaining the charter school closure procedures was to collect SEA information regarding the closure processes already in place and identify what procedures needed improvement.

OII developed an evaluation rubric that included indicators that each SEA's closure procedures should include. OII then used the rubric to evaluate the closure procedures it received from the SEAs. However, we determined that the rubric did not satisfactorily address all four areas of our audit objective. The rubric did not address whether the SEA had procedures for the financial closeout of Federal funds, and the protection and maintenance of student information and records. It addressed only SEA subgrantee monitoring; tracking charter school closures; SEA procedures to identify closed charter schools that received CSP SEA funds; and SEA procedures, processes, and documentation for disposition of assets. The charter school closure procedures for the three selected SEAs were inadequate when measured against OII's rubric.

- For Arizona, OII found the procedures did not address how the SEA received and tracked charter school closures and whether the SEA collected documentation on how and where assets were disposed.
- For California, OII found the procedures were not clear regarding how the SEA tracked charter school closures over time and did not address whether the SEA had procedures to identify which closed charter schools received CSP SEA funds.
- For Louisiana, OII found the procedures did not address whether the SEA had procedures to identify which closed charter schools received CSP SEA funds and whether the SEA collected documentation on how and where assets were disposed.

After its review of the SEA procedures, OII provided technical assistance to the SEAs that included a list of best closure practices, a workshop on how to update and improve the charter school closure procedures, and held conference calls to provide specific feedback to SEAs when necessary. However, OII did not follow up to ensure that the SEAs revised the charter school closure procedures to address OII's concerns and did not use the evaluation rubric to monitor the CSP SEA grantees.

On September 28, 2015, the Department issued a Dear Colleague Letter to remind SEAs of their role in helping to ensure that Federal funds received by charter schools are used for intended and appropriate purposes. The Dear Colleague Letter did not specifically discuss charter school closures but included a reference to a November 17, 2014, SEA webinar on charter school closures conducted by the National Charter School Resource Center on behalf of the Department. The webinar provided the best practices of charter school closure processes for two States,

[14] The report is available on the OIG Web site at http://www2.ed.gov/about/offices/list/oig/auditreports/fy2012/a02l0002.pdf.

Missouri and New Jersey. On August 4, 2016, OII issued a letter to CSP SEA project directors that included guidance on CSP closure requirements.

The Department Did Not Adequately Monitor SEAs' Charter School Closure Processes

The Department did not monitor the internal controls that the selected SEAs had for charter school closures. The Title I, IDEA, and CSP program offices did not incorporate a review of charter school closure procedures into their SEA monitoring tools. OESE's and OSERS's SEA monitoring procedures included a review of selected LEAs and public schools, including charter schools, but did not specifically address charter school closures. OII contracted with WestEd, a nonprofit company, to monitor the CSP SEA grantees, but did not task the contractor with reviewing SEA charter school closure procedures. The contract required WestEd to provide monitoring and data collection services necessary for evaluating the progress of the CSP SEA programmatic goals.

OESE Monitoring

OESE's monitoring tools did not include procedures to specifically assess the adequacy of SEAs' oversight of the closure process for charter schools. OESE's SEA monitoring plan for formula grant programs, including Title I, for FY 2012 and the ESEA flexibility monitoring plan for FY 2013 did not address charter school closures and SEA oversight of the charter school closure process. The monitoring of formula grant programs concluded with the FY 2013 grant cycle; however, OESE continued monitoring each State approved for ESEA flexibility.

In October 2014, OESE transferred the responsibility for oversight of the Title I program to Office of State Support, which planned to develop new monitoring procedures to cover the programs under its purview. On December 10, 2015, the President signed the Every Student Succeeds Act, which reauthorized the ESEA. An Office of State Support deputy director stated that during FYs 2016 and 2017, it piloted a new SEA fiscal monitoring tool which added a section to ensure SEAs have clear procedures for orderly charter school closure and a section on charter school authorizer oversight in its LEA fiscal monitoring tool that included questions regarding charter school closures. The Office of State Support piloted its LEA fiscal monitoring tool during the FY 2017 review cycle. During the same review cycle, it also piloted the "Tool for Assessing Grantee Risk," an online database tool for collecting and scoring risk assessment data.

OSERS Monitoring

OSERS's monitoring tools did not include procedures to specifically assess the adequacy of SEAs' oversight of the closure process for charter schools. According to the OSERS director of Monitoring and State Improvement Planning Division, as of FY 2013, all onsite monitoring visits were on hold pending a reform of OSERS's current accountability components. In January 2015, according to the same official, OSERS developed an outline for the differentiated monitoring and technical assistance system using a risk-based approach. The official stated OSERS did not consider how oversight of charter schools receiving IDEA funds and charter school closures would factor into the risk rubric, but OSERS could include it in its monitoring of the SEAs with elevated risk. As of September 22, 2017, OSERS added an element to its risk analysis regarding the percentage of a State's LEAs that are charter schools. It also updated its subrecipient monitoring protocol with questions about a State's oversight of charter school LEAs and charter management organizations. OSERS made the changes because it recognized that a larger percentage of charter school LEAs increases the complexity of a State's oversight efforts

in a number of areas, including the charter school closure procedures. However, the new monitoring protocol did not include questions that specifically addressed charter school closures. Rather, the questions focused on charter school relationships with charter management organizations.

OII Monitoring

From September 2011 through September 2015,[15] OII contracted with WestEd to monitor the CSP SEA grantees but did not task WestEd with monitoring the charter school closure process. The September 2013 WestEd CSP SEA monitoring report for the California SEA included an overview of the charter school closures in the background section.[16] This overview included the number of closed schools, the State charter law requirements, and the recommended process for closing a charter school. However, we found WestEd did not monitor the recommended process for closing a charter school. It also did not ensure that the SEAs performed and documented all applicable Federal and State requirements in the event of a charter school closure. WestEd did not monitor Arizona and Louisiana SEAs during our audit period.

OII requested that WestEd include in the FY 2014 procedures an assessment of the SEA policies and procedures for disposal of assets purchased with CSP SEA grant funds in the event of charter school closure. In the FY 2017 procedures, WestEd added a note that the CSP SEA applicants should follow applicable laws, policies, and procedures that govern the closure of a charter school, the disposition of its assets, and the transfer of its students and student records. Also in FY 2017, OII began to capture some basic charter school closure data based on available State information. These data included the number of schools closed per year and the closure reasons (as defined by the State documentation).

Federal and State Requirements Regarding Oversight of Charter School Closure Process

The Federal guidance applicable to the Department's oversight of Title I, IDEA, and CSP SEA grants includes the following:

- selected provisions from Office of Management and Budget (OMB) Circular A-123 Management's Responsibility for Internal Control;
- selected provisions of the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government;
- Departmental Directive OS: 1-108, "Guide for Managing State Administered Programs;" and
- the Department's Handbook for the Discretionary Grant Process.

Federal regulations applicable to SEAs ensuring compliance with Federal laws and regulations for closed charter schools include selected provisions from ESEA, Title 34 of the Code of

[15] OII awarded a one-year contract to WestEd on September 25, 2015, with an option to extend it every 12 months until September 2020.

[16] The CSP SEA monitoring report template instructs WestEd to include a brief overview in the background section that deals with closures and State policies and best practices with respect to charter school closures. WestEd first requested this information from CSP SEA grantees during the FY 2013 monitoring cycle. In FY 2014, WestEd included the narrative information on charter school closures in the CSP SEA grantee monitoring report.

Federal Regulations (34 C.F.R.), and OMB Circulars A-87 and A-122.[17] We also identified applicable State requirements for each of the selected States.

Federal Guidance Applicable to the Department's Oversight of Title I, IDEA, and CSP SEA Grants

OMB Circular A-123 (2004 revision) and GAO's Standards for Internal Control in the Federal Government (1999 revision) state that Federal agencies should perform risk assessments at the entity-wide and activity level, present internal controls as a means to manage the risk associated with Federal programs and operations, and establish the importance of communicating relevant information to personnel at all levels within an agency. Additionally, OMB Circular A-123 § I states that management is responsible for developing and maintaining effective internal control so that programs operate and resources are used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement. GAO Standards for Internal Control in the Federal Government (1999 revision) states that management needs to comprehensively identify risks and consider all significant interactions between the entity and other parties at both the entity-wide and activity level. In addition, internal controls should ensure monitoring is performed continually and is ingrained in the agency's normal operations and that all transactions and other significant events need to be clearly documented, properly managed, and maintained as well as readily available for examination.[18]

Section VII of the Departmental Directive OS: 1-108, "Guide for Managing State Administered Programs," states that principal offices that administer State formula grant programs must develop standard operating procedures for closeout of State formula grants. Section 5.3.4 of the Department's Handbook for the Discretionary Grant Process states that principal officers who administer discretionary grant programs must use data collected, analyzed, and reported to improve the principal office program monitoring and procedures. Section 5.3.7 states that the program office staff must develop the most appropriate form of monitoring for each grant.

[17] Effective December 2014, grantees are required to meet the requirements in OMB's Uniform Guidance (2 C.F.R. § 200.303), regarding effective internal control over Federal awards. According to § 200.303(b), the non-Federal entity must comply with Federal statutes, regulations, and the terms and conditions of the Federal awards. The non-Federal entity, according to § 200.69, is defined as a State, local government, or nonprofit organization that carries out a Federal award as a recipient or subrecipient.

[18] While the 1999 GAO Standards for Internal Control in the Federal Government revision did not address oversight, the 2014 revision to the GAO Standards for Internal Control in the Federal Government addresses oversight and significantly expands on the previously identified standards.

Closeout Procedures for Federal Funds Received by Charter Schools That Close

According to 34 C.F.R. § 80.20(a),

> [a] State must expand [sic] and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) permit preparation of reports required by this part…and (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

In addition, OMB Circulars A-87 Attachment A (C)(1)(j) and A-122 Attachment A (A)(2)(g) state that to be allowable under Federal awards, costs must be adequately documented.

For a closed charter school that was a subgrantee, we identified State requirements for closeout procedures for Federal funds for each of our sampled States.

- Under Arizona law (Arizona Revised Statutes § 15-183(E)(6)), charter schools were generally subject to the same financial submission requirements as school districts including compliance with the uniform system of financial records, procurement rules, and audit requirements. In accordance with the Arizona Auditor General's Uniform System of Financial Record for Arizona Charter Schools Section VI-J-9, Arizona SEA required project completion reports to satisfy the financial reporting requirements for Title I, IDEA, and CSP SEA grants. If the completion report was not submitted as required, the SEA suspended further payments to the school but also could not determine the remaining unspent Federal grant funds. When a charter school closed, the SEA required it to submit project completion reports within 90 days of the school's closure date or the end of the school year if the school's charter holder remained open.
- Title 5 of the California Code of Regulations § 11962(f) required charter schools to complete an independent final audit within 6 months of the school closure. The audit should include an accounting of all financial assets and liabilities and an assessment of the disposition of any restricted funds received by or due to the charter school. The regulation also required the disposal of any net assets remaining after all liabilities of the charter school were paid or otherwise addressed, including the return of any grant funds and restricted categorical funds to their source in accordance with the terms of the grant or Federal and State law, as appropriate, and submission of any annual reports to the authorizer. Additionally, California SEA's charter school closure guidance stated that after receiving notification of closure, the SEA would notify the charter school and the authorizer if it was aware of any liabilities the charter school owed the State. These could include overpayment of apportionments, unpaid revolving fund loans or grants, or other liabilities.
- The Louisiana SEA charter school closure checklist required the charter school operator to complete and submit Federal expenditure reports within 45 days of the last day of classes.

Disposition of Assets Acquired With Federal Funds by Charter Schools That Close

For proper disposition of assets acquired with Federal funds by a charter school that closed, 34 C.F.R. § 80.32(e) states that the grantee or subgrantee may retain or sell assets. When the asset is valued at less than $5,000, there is no further obligation to the awarding agency. When an asset valued at $5,000 or more is sold, the awarding agency has a right to a calculated share. If a grantee or subgrantee fails to take appropriate disposition actions, then the awarding agency may direct one to take appropriate disposition actions.

Further, in each of the three States, where the sampled charter schools were neither the grantee nor subgrantee of Federal funds, the SEAs had additional State criteria applicable to the disposition of assets acquired with Federal funds by a charter school that closed. When the closed charter schools were neither a grantee nor subgrantee during the audit period, but had previously received and used Federal funds to purchase assets, those schools were responsible for properly disposing of those assets when they closed. We identified those SEA regulations for each of our sampled States.

- According to the Arizona Revised Statutes § 15-183(T), Arizona State charter school law allowed a charter holder that previously operated a closed charter school to retain all assets it accumulated during the closed charter school's operation. According to the Arizona Auditor General's Uniform System of Financial Records for Arizona Charter Schools SectionVI-E-1, a school should have
    1. prepared a detailed list of capital assets that includes all equipment with unit costs of $5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of $5,000 or more;
    2. prepared a stewardship list for all equipment with a cost of $1,000 or more but less than the capital asset threshold; and
    3. taken a physical inventory of all equipment at least every 3 years, and at least every 2 years for equipment costing more than $5,000 purchased with Federal funds.
- Title 5 of the California Code of Regulations § 11962(f)(1) required a financial closeout audit of the closed charter school within 6 months after the closing to determine an inventory of property, equipment, and other items of material value. According to the California SEA's charter school closure guidance, charter school closure procedures should have described the disposal of any net assets and allowed for assets to be transferred to the authorizer or another public charter school as stated in an agreement between both parties.
- According to the Louisiana Bulletin 126 § 2509(C),[19] all assets purchased with any public funds for the selected closed charter schools would become the property of State board of education. In addition, the Louisiana SEA charter school closure checklist required the charter school operator to contact the SEA regarding proper procedures for the disposition of assets purchased with Federal funds including Title I and IDEA funds, with the exception of CSP SEA funds. For assets purchased with the CSP SEA funds, the checklist stated that the property must first be offered to other charter schools within the

[19] Louisiana State board of education creates policies governing State public education, which are published in "bulletins" and become part of the Louisiana Administrative Code. Bulletin 126 implements the requirements of Louisiana's charter school law.

same region in which the closing school was located or must be auctioned if none of the charter schools within the same region took the assets.

Protection and Maintenance of Student Information and Records from Closed Charter Schools[20]
The Federal regulations regarding the privacy and transfer of student information and records from closed charter schools include applicable provisions from ESEA, the Family Educational Rights and Privacy Act, and, for children with disabilities, IDEA. Section 5208 of ESEA, as amended, which concerns transfer of records for students in schools receiving CSP SEA funds, includes provisions for proper protection and maintenance of student information and records from a charter school that closed. It states that when a student transfers from a charter school to another public school, SEAs and LEAs must ensure the transfer of a student's records and, if applicable, a student's individualized education program as defined in Section 602(14) of the IDEA to the new school in accordance with applicable State law. Additionally, the Family Educational Rights and Privacy Act regulations (in 34 C.F.R. Part 99) protect the privacy of student education records. Specifically, the Family Educational Rights and Privacy Act provisions in 34 C.F.R. § 99.31(a)(2) allow schools to disclose those records, without consent, to other schools to which a student is transferring subject to specific conditions. See also 34 C.F.R. § 300.323(g) of the IDEA regulations (regarding transmittal of records).

We also identified State requirements for protection and maintenance of student information and records for each of our sampled States.

- Arizona Revised Statutes § 15-341(A)(41) required the charter holder to maintain and store permanent public records of the school district as required by law. The "General Records Retention Schedule for School Districts and Charter Schools," Schedule Number: 000-11-53 (standards for maintaining and storing school district public records) stated that permanent student records include personal identifying information (name, student identification number), transcript of final grades, summary of attendance, and standardized test scores. The location of the records and corresponding contact information was identified in the school closure notification maintained through Arizona authorizer's online system. Also, when the charter holder voluntarily surrendered its charter and effectively closed the charter school it operated, the charter holder agreed to mail a complete copy of each student's educational record to the student's parent or legal guardian and inform the authorizer of the location of the student records. If a charter holder also closed and could not maintain the student records, the authorizer would become the custodian of the students' records.
- In California, a charter school petitioner must provide a reasonably comprehensive description of procedures for closeout and for the maintenance and transfer of student records as part of its petition to an authorizer to operate a charter school in accordance with the California Education Code § 47605(b)(5)(P). In addition, according to the California SEA charter school closure guidance, which was based on the California Education Code, the charter school and the authorizer should have established a process for student record transfer to the students' home district or other school to which the student will transfer. Further, the authorizer and the charter school should have agreed to

[20] The student records generally include grades, immunization records, parent/guardian information, and, if applicable, special education records including individualized education programs.

a plan allowing the authorizer to accept charter school records in the event the charter school is unable to maintain them.

- The Louisiana SEA charter school closure checklist required the charter school operator to secure student records within 24 hours of the charter school's board vote and transfer all student records to the students' new schools one month after the end of instruction. The checklist also required documentation to accompany the physical transfer of all student records that included the following:
    - the number of general education records transferred,
    - the number of special education records transferred,
    - the date of transfer,
    - the signature and printed name of the charter school representative releasing the records, and
    - the signature and printed name of the district (or other entity) recipient(s) of the records.

The Department Did Not Consider Risk of Charter School Closures

During our audit period, the Department did not consider charter school closures to be a risk to Federal funds; therefore, the Title I, IDEA, and CSP program offices did not prioritize providing guidance to SEAs on how to manage the charter school closure process or monitor the SEAs' charter school closure processes. The program offices did not include charter school closure information in their respective risk assessments on which they based SEA oversight and monitoring decisions. OESE and OSERS did not request or collect charter school closure information; OII obtained closure information through SEA data collection but did not use this information in its monitoring decisions. OESE's former Student Achievement and School Accountability Programs acting director, OSERS's Office of Special Education Programs deputy director, and OII's CSP director informed us that SEAs, in their role as pass-through entities, were primarily responsible for overseeing LEAs and schools, including charter schools and charter school closure processes. Therefore, Title I, IDEA, and CSP program offices relied on each SEA to develop its own policies and procedures for handling charter school closures and mitigating the risk of future closures.

Causes of Charter School Closures

For all of the 89 closed charter schools we examined, the SEA and authorizer, when applicable, had documented the reason for the closure in their files. All of the SEAs and authorizers that we reviewed had procedures and internal controls to identify the causes for charter school closures and to mitigate the risk of future charter school closures. We found that when a charter was voluntarily surrendered by the charter holder, not renewed or revoked by the authorizer, it was generally because of low enrollment or poor academic performance, as noted in Table 3 below.

Table 3. Causes for Closure for Sampled Closed Charter Schools by State[21]

Cause of Closure	Arizona 2012	Arizona 2013	California 2012	California 2013	Louisiana 2012	Louisiana 2013	Total 2012	Total 2013
Low Enrollment	11	7	1	2	0	0	12	9
Academic Performance	3	1	2	0	6	2	11	3
Financial Issues	0	1	1	0	0	0	1	1
Lack of Facilities	0	3	0	0	0	0	0	3
Other*	3	1	9	10	1	0	13	11
Multiple**	11	4	4	2	2	2	17	8
Total	**28**	**17**	**17**	**14**	**9**	**4**	**54**	**35**

*Charter schools included in this category closed for other reasons, including merger with another charter school, transfer to another charter operator, or conversion to a district school.
**The charter schools included in this category closed for more than one reason. The SEA and/or authorizer identified at least two of the causes for the school's closure.

Weaknesses in the Charter School Closure Process

We found a significant number of weaknesses in all three States regarding the closure process for the 89 judgmentally sampled closed charter schools. We found weaknesses in all three States in three of the four objective areas. For the 89 judgmentally sampled charter schools, we found that the SEAs and the related charter school authorizers, when applicable, did not consistently perform and document the SEAs' closure procedures for grant closeout, disposition of assets, and protection of student records. We found weaknesses in the Department's SEA oversight of Title I, IDEA, and CSP SEA grants provided to charter schools that closed. Further, each State's charter school law did not uniformly delegate responsibility to the SEA and/or authorizer to oversee and monitor charter school closures, which led to inconsistencies in performance of the charter school closure procedures. For example, in one of the three States, the charter school authorizers were responsible for overseeing and monitoring charter school closures. In another State, the SEA was responsible for most of the activities related to our audit objective. For the third State, the SEA and the authorizer shared responsibility in respect to our audit objective. In instances where a charter school received funds through a traditional public LEA, the school district handled the charter school closure process. As a result, the number and type of weaknesses across the three States varied. Table 4 shows the number of weaknesses we found for the closed charter schools. For a more detailed discussion of our findings in each State, see Attachment 2 in this report.

[21] In California, we reviewed charter school closures for five authorizers. Please see the Objective, Scope, and Methodology section for more details on our sampling procedures.

Table 4. Count of Weaknesses by State for Sampled Closed Charter Schools

Weakness Identified	Arizona *Yes*	Arizona *No*	California *Yes*	California *No*	Louisiana *Yes*	Louisiana *No*	Total *Yes*	Total *No*
Grant Closeout	30	15	11	20	5	8	46	43
Disposition of Assets	44	1	9	22	12	1	65	24
Student Records	22	23	6	25	11	2	39	50

Lack of Adequate Oversight of Charter School Closures

The Department lacked adequate oversight of the selected SEAs by Title I, IDEA, and CSP program offices, and the SEAs did not ensure all Federal and State requirements for the charter school closure process were consistently performed and documented. Without adequate Department guidance provided to the SEAs and sufficient SEA and authorizer oversight and monitoring of charter school closure processes, the risk of significant fraud, waste, and abuse of Federal programs funds is high. The growing number of charter schools, from 1,993 in SY 2000–2001 to 6,855 in SY 2015–2016, and the number of charter schools that closed, ranging from 72 in SY 2000–2001 to 308 in SY 2014–2015, require the Department's program offices to develop and implement a modified approach to overseeing the SEAs.

We found there was no assurance that for the sampled closed charter schools (1) Federal funds were properly closed within the required period, (2) assets acquired with Federal funds were properly disposed of, and (3) the students' personally identifiable information was properly protected and maintained. The results of our review demonstrated the need for the Department to take appropriate actions to improve oversight of Title I, IDEA, and CSP SEA grants provided to charter schools that subsequently closed.

Recommendations

We recommend that the Deputy Secretary coordinate with the Assistant Secretary for OESE, the Assistant Secretary for OSERS, and the Acting Assistant Deputy Secretary for OII to—

1. Develop a risk assessment that identifies SEAs that fund charter schools and considers the risks to Federal funds associated with charter school closures and monitor SEAs based on this assessment, focusing on those elements of the charter school closure process that pose the most risk.

2. Review guidance issued by the Department to determine whether it adequately addresses issues related to Federal grant closeout, disposition of assets purchased with Federal funds, and protection and maintenance of student records for closed charter schools, and either modify the current guidance or issue new guidance as appropriate.

3. Work with SEAs to develop and implement effective charter school closure procedures. In doing so, identify and share best practices and relevant requirements for SEAs regarding Federal grant closeout, disposition of assets purchased with Federal funds, and protection and maintenance of student records to ensure that charter schools that are identified for closure by the responsible State and local entities are closed in an appropriate manner.

Department Comments
In its comments on the draft audit report, the Department did not explicitly agree or disagree with our finding, but it described actions it took in recent years that address some of the issues noted in our report. These actions included issuing Dear Colleague Letters with information on charter school closure requirements. The Department stated that the fundamental principle for guiding States' implementation of charter schools is to provide charter schools increased levels of autonomy so they may innovate in exchange for increased flexibility in implementing applicable requirements. This principle also guides the Department to assert its limited role in its oversight of SEAs and their use of Federal funds in relation to charter school closures. The Department further stated that our review of closed charter schools was limited in scope and somewhat outdated and that many States have increased accountability for charter school fiscal requirements and expectations for student performance since the time of our audit. The Department cited Stanford University's Center for Research on Education Outcomes 2017 study, "Lights Off: Practice and Impact of Closing Low-Performing Schools," as demonstrating the extensive variability across States in how they deal with charter school closures and the complex dynamics involved in closing charter schools. The Department stated that our review of only three States' data is not representative.

The Department also did not agree with our recommendations. The Department stated that our audit recommended a set of actions that, if implemented, would be inconsistent with the Federal role in education, as embodied in section 103(a) of the Department of Education Organization Act. As a result, the Department recommended that the draft audit's multiple recommendations be replaced with a single recommendation that properly identified the balance of Federal and State responsibility for the oversight of charter schools.

OIG Response
We acknowledge the actions the Department has taken since our audit began, including its issuing guidance regarding requirements related to charter school closures, and we recognize the challenges it faces in ensuring proper oversight of Federal funds consistent with the Federal role in education. However, we disagree with the Department's assertion that our recommendations, if implemented, would be inconsistent with the Federal role in education, as embodied in section 103(a) of the Department of Education Organization Act. Our recommendations acknowledge that while SEAs and LEAs are primarily responsible for overseeing individual charter schools that receive Federal funds under the Title I, IDEA, and CSP SEA programs, the Department is primarily responsible for ensuring that SEAs and other direct grantees comply with applicable Federal laws and regulations. These include requirements related to subgrantee monitoring, generally, and the charter school closure process, specifically. Congress, as recently as 2015, codified this responsibility with respect to the programs funded under the Every Student Succeeds Act. To improve monitoring and oversight of taxpayer funds and to deter and prohibit waste, fraud and abuse, section 9204 of that law requires the Department to (1) notify SEAs of their responsibility to comply with all monitoring requirements and to monitor properly any subgrantee and (2) review and analyze the results of monitoring to understand trends and identify common issues, and to issue guidance to help grantees address such issues before the loss or misuse of taxpayer funding occurs.

OMB Circular A-123 and the GAO Standards for Internal Control in the Federal Government (2014 revision) also require management to establish internal controls including procedures that identify and mitigate risk. We noted a significant number of weaknesses in all three States we

reviewed regarding the charter school closure process, particularly in relation to grant closeout, disposition of assets, and protection and maintenance of student records. It is important that the deficiencies we identified are addressed and that the Department works with SEAs to ensure that the risks associated with charter school closures for Federal grants are properly identified and mitigated.

We considered the Department's suggestion for changes to our recommendations and the actions the Department has taken and their impact and revised the recommendations where appropriate. We also made changes to the report for clarity as a result of the Department's comments, including the Office of General Counsel's technical comments.

OTHER MATTER

Parents or Legal Guardians Were Not Always Notified of a Charter School's Closure

In the three selected States, the SEA and/or authorizer required charter school officials to notify parents or legal guardians of a charter school's impending closure. The SEAs and/or authorizers generally used charter school closure notification requests, charter school closure guidance, and charter school closure checklists to ensure the charter school officials provided timely and appropriate parental notification and options for placement in another school. However, we found that for 23 of the 89 closed charter schools in our sample, school officials did not notify parents or legal guardians of displaced students of the charter schools' impending closure and did not provide information regarding alternative public school placements and appropriate assistance with enrollment.

We suggest that the Deputy Secretary, in coordination with the Assistant Secretary for OESE, the Assistant Secretary for OSERS, and the Acting Assistant Deputy Secretary for OII, advise SEAs of the importance of communicating to LEAs regarding the need for timely notification and appropriate assistance to all parents or legal guardians of displaced students in the event of a charter school's closure.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the Department has effective oversight of the programs provided to charter schools and sufficiently monitors SEAs to ensure the following:

1. procedures and internal controls are in place to identify the causes for charter school closures and for mitigating the risks of future charter school closures,
2. close-out procedures for Federal funds received by a charter school are performed in accordance with Federal laws and regulations,
3. assets acquired with Federal funds by a charter school that closes are disposed of in accordance with Federal laws and regulations, and
4. student information and records from closed charter schools are protected and maintained in accordance with Federal laws and regulations.

Our original audit objective included determining whether the Department had effective oversight of the programs provided to charter schools and sufficiently monitors SEAs to ensure transfers of students from a charter school that closed were performed in accordance with Federal laws and regulations. Because Federal laws and regulations do not require the SEA to ensure a student transfers from a closed charter school to another school, we modified the objective accordingly.

Our initial State audit period was SY 2011–2012 (July 1 through June 30). On May 6, 2013, we placed the audit on hold. When we resumed the audit on July 31, 2014, we expanded our audit period to include SY 2012–2013 (July 1 through June 30) to provide updated information. We performed additional follow-up work at the Department in September and October 2017 to determine what updates the program offices made to procedures for monitoring the SEAs' charter school closure processes. As part of this follow-up, we reviewed the Office of State Support's FY 2017 SEA and LEA on-site and desk review protocols and OSERS's FY 2017 IDEA subrecipient monitoring protocol. Because OII contracts its monitoring to WestEd, we reviewed WestEd's FY 2017 monitoring handbook and report template for the CSP SEA grant. We did not verify whether the new procedures have been fully implemented. We focused on three States with closed charter schools that received funding under Title I, IDEA, and CSP SEA grants. The three States selected for our review were Arizona, California, and Louisiana.

Before conducting our audit fieldwork, we performed an informational site visit to Missouri and interviewed Missouri SEA officials, a St. Louis LEA official, three charter school authorizers' officials, and a nonprofit organization official to obtain an understanding of the Missouri charter school system and its practices when closing a charter school. We also performed an initial site visit at the Department to obtain information about the Title I, IDEA, and CSP SEA grants provided to charter schools that subsequently closed. As part of this initial site visit, we performed the following procedures:

- Obtained an understanding of the Title I, IDEA, and CSP SEA grants.
- Obtained an understanding of Title I, IDEA, and CSP program offices responsibilities, and identified key personnel responsible for the administration of the Title I, IDEA, and CSP SEA grants.
- Interviewed key Title I, IDEA, and CSP program offices officials including OESE's former Student Achievement and School Accountability Programs acting director and acting group leader for Audit Resolution Team Monitoring and Technical Assistance, OSERS's Office of Special Education Programs program officials, and OII's Assistant Deputy Secretary, and CSP director and program manager.
- Reviewed select provisions of the ESEA, applicable sections of the C.F.R, OMB Circulars, GAO's Standards for Internal Control in the Federal Government, the Department's Handbook for the Discretionary Grant Process, July 2004 Non-Regulatory Guidance on the Impact of Title I Requirements on Charter Schools, and April 2011 Charter Schools Program Non-Regulatory Guidance.
- Reviewed relevant reports, including:
    - "The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants," ED-OIG/A02L0002, September 25, 2012;
    - "A Performance Audit and Sunset Review of the Arizona State Board for Charter Schools," September 25, 2013;
    - Performance audit on the Louisiana Department of Education's monitoring of charter schools, May 15, 2013; and
    - A December 2011 report by the Center for Education Reform, "State of Charter Schools Report, What We Know and What We Do Not About Performance and Accountability."

To achieve our audit objective, we performed the following procedures at the Department:

- Identified laws, regulations, and guidance applicable to the Department's oversight of Title I, IDEA, and CSP SEA grants and to the SEAs pertaining to compliance with Federal laws and regulations for the four areas in our audit objective for closed charter schools.
- Obtained an understanding of the awarding and monitoring process of grants provided to charter schools including Title I, IDEA, and CSP SEA grants.
- Obtained an understanding of the risk assessments related to the Department's oversight of Title I, IDEA, and CSP SEA grants by reviewing the Department's policies and procedures and entity risk reviews and conducting interviews with Risk Management Service's director and senior advisor to the director.
- Obtained an understanding of Title I, IDEA, and CSP program offices internal controls related to the Department's oversight of Title I, IDEA, and CSP SEA grants by reviewing the program offices' policies and procedures for charter school closures and conducting interviews with program office officials including:
    - OESE's Office of State Support director;
    - OESE's former Student Achievement and School Accountability Programs acting director and acting group leader for Audit Resolution Team Monitoring and Technical Assistance;

  - OSERS's Office of Special Education Programs deputy director, director, and associate director of Monitoring and State Improvement Planning Division and education program specialists; and
  - OII's Assistant Deputy Secretary, Associate Assistant Deputy Secretary, CSP director, CSP program manager, and CSP program analyst.
- Reviewed Title I, IDEA, and CSP program offices monitoring procedures including the following:
  - OESE's Student Achievement and School Accountability Programs Monitoring Plan for Formula Grant Programs for FYs 2012 and 2013;
  - OESE's ESEA Flexibility Parts A and B Monitoring Protocols;
  - OSERS's Critical Elements Analysis Guide for General Supervision and Fiscal Systems;
  - OSERS's 2009 Monitoring Manual Volume I: State Performance Plans and Annual Performance Reports;
  - OSERS's fiscal protocols including American Recovery and Reinvestment Act of 2009 Monitoring Inventory Part B and Abbreviated Part B Critical Elements Analysis Guide For Fiscal Systems; and
  - WestEd's FYs 2012 and 2014 monitoring handbooks for CSP SEA grant.
- Reviewed Title I, IDEA, and CSP program offices monitoring reports including the following:
  - OESE's Louisiana and Arizona SEAs' ESEA Flexibility Part A monitoring reports for SY 2012–2013;
  - OSERS's Louisiana SEA fiscal monitoring report issued in December 2013; and
  - WestEd's California SEA monitoring report issued in September 2013.
- Reviewed OII's CSP SEA grant annual performance reports and data collection forms for Arizona, California, and Louisiana SEAs.
- Reviewed OII's documentation related to the April 23, 2013, workshop including the list of best closure practices and the charter school closure procedures for Arizona, California, and Louisiana SEAs.

At the SEAs and authorizers, we—

- Reviewed selected States' statutes and charter school laws applicable to our audit objective.
- Conducted work to obtain an understanding of the three selected SEAs' oversight of charter school closures.
  - Obtained an understanding of the SEAs' application, awarding, monitoring, and reporting process of the Title I, IDEA, and CSP SEA grants provided to charter schools.
  - Obtained an understanding of the SEAs' internal controls related to the oversight of the Title I, IDEA, and CSP SEA grants of charter schools by reviewing the SEAs' policies and procedures and conducting interviews with SEA officials.
  - Determined the universe of charter schools that closed in the three States from July 1, 2011, through June 30, 2013.
  - Identified the amount of the Title I, IDEA, and CSP SEA grant funds that were awarded to the sampled closed charter schools that were LEAs or were part of traditional public or charter-only LEAs.

  - Reviewed internal controls for identifying the causes for charter school closures and for mitigating the risks of future charter school closures.
  - For each of the closed charter schools, we obtained and reviewed SEA charter school files, monitoring reports, and other supporting documents to determine the extent of the SEAs' oversight of charter school closures.
  - Gained an understanding of the SEAs' monitoring of authorizers by conducting interviews with SEA officials.
- Conducted work to obtain an understanding of the authorizers' oversight of charter school closures.
  - Reviewed the authorizers' policies and procedures for approval, renewal, and revocation of charter schools.
  - Obtained an understanding of the authorizers' oversight of charter school closure by reviewing policies and procedures.
  - Interviewed authorizing officials at Arizona State Board of Charter Schools, Long Beach Unified School District, Los Angeles Unified School District, Oakland Unified School District, Stockton Unified School District, Twin Rivers Unified School District, and Louisiana Department of Education.
  - For each of the closed charter schools, when applicable, we reviewed the following in the authorizers' charter school files:
    - Charter school contracts;
    - Authorizer's and charter school's board minutes;
    - Annual performance evaluations, monitoring reports, reviews, and single audit reports or audited financial statements for charter schools not subject to single audit requirements;
    - Documentation related to nonrenewal or revocation of the charter or voluntary surrender of the charter;
    - Charter school closure procedures and checklists;
    - Notification of charter school closure;
    - Final expenditure reports;
    - Inventories and other documentation related to the disposition of assets purchased with the Title I, IDEA, and CSP SEA grant funds; and
    - Documentation related to the protection and maintenance of student records.

Sampling Methodology

We selected three States and selected authorizers within those States. We reviewed all closed charter schools for two States. For the third State, we reviewed closed charter schools for selected authorizers due to a much greater population of authorizers. Because we judgmentally selected the three States and for one State, authorizers, the results of our review cannot be projected to all charter schools closed during SYs 2011–2012 and 2012–2013.

Selection of States
To select States, we developed a matrix using data from the Department's Common Core of Data. The elements considered in the matrix were:

1. total charter school student enrollment in each State in SY 2009–2010,
2. number of charter schools in each State during SY 2009–2010,
3. number of closed charter schools in each State for SY 2009–2010, and
4. the ratio of closed charter schools to total charters schools in each State for SY 2009–2010.

Based on those factors, we selected Arizona, California, and Louisiana because of the highest number of closed charter schools authorized by the same charter school authorizer (Arizona), the largest charter school student enrollment and the most charter schools of any State (California), and the highest ratio of closed charter schools to total charter schools (Louisiana).

Selection of Authorizers and Closed Charter Schools
To select authorizers within each of the States, we obtained the lists of charter schools that closed and their related authorizers during SY 2011–2012 from SEA and authorizer officials. Those lists included a total of 34 authorizers. For two of the three selected States, Arizona and Louisiana, all closed charter schools within each of these States shared one authorizer. In California, however, there were 58 closed charter schools associated with 32 authorizers. We selected 5 of the 32 authorizers, based on closed charter school count and location of the authorizers. Because of the number of authorizers in California, we decided to review at least 50 percent of the universe in two separate geographic clusters, one in the north and one in the south. We also excluded from the initial list of 58 closed charter schools virtual charter schools or schools that were granted charters but never opened to students. Fourteen closed charter schools were associated with two authorizers in Los Angeles County. The remaining closed charter schools each had a different authorizer and we judgmentally selected one authorizer from three different counties in the northern California. Ultimately, for SY 2011–2012 in California, we reviewed 17 out of 30 closed charter schools in the State.

In total, our review included 89 charter schools that closed in SYs 2011–2012 and 2012–2013. For SY 2011–2012, our review included 54 charter schools that closed. For SY 2012–2013, when we expanded the audit period, we returned to the same 7 authorizers in the 3 States and reviewed 100 percent of the charter schools that closed during the school year. Two of the five authorizers in California did not have any charter schools that closed during SY 2012–2013. For the remaining 5 authorizers, we reviewed all 35 charter schools that closed in SY 2012–2013.

For the purposes of our audit, we defined a closed charter school as a school established at a physical location that operated with students, received or was eligible to receive Federal funds, and closed or was absorbed by another charter or public school. We did not consider and review virtual charter schools or schools that were granted charters but did not receive Federal funds and never opened to students. Table 5 presents the number of sampled closed charter schools included in our review by State, authorizer, and year of closure.

Table 5. Count of Sampled Closed Charter Schools by Authorizer

State	Selected Authorizer	SY 2011–2012	SY 2012–2013
Arizona	Arizona State Board for Charter Schools	28	17
California	Long Beach Unified School District	2	1
California	Los Angeles Unified School District	12	11
California	Oakland Unified School District	1	2
California	Stockton Unified School District	1	0
California	Twin Rivers Unified School District	1	0
Louisiana	Board of Elementary and Secondary Education	9	4
Total		**54**	**35**

Reliability of Data
We relied on computer-processed data from the Department's Common Core of Data to determine the universe of States with charter schools. Because the data were used for information to select a judgmental sample of States, we did not assess the reliability of the data. We did not rely on computer-processed data to identify closed charter schools. Instead, we performed alternative procedures to obtain the universe of closed charter schools in each State for SY 2011–2012. First, we obtained the lists of closed charter schools from the SEAs and the authorizers overseeing these schools. Second, we validated the universe of closed charter schools by reviewing supporting documentation from the SEA's and the related authorizer's electronic or hardcopy files when performing site work. For SY 2012–2013, we performed the same alternative procedures for the States. Based on these steps, we determined that the data we used were sufficiently reliable for the purpose of our audit.

We conducted our fieldwork at the Department in Washington, DC, from December 4, 2012, through April 20, 2015. We placed the audit on hold May 6, 2013, and resumed on July 31, 2014. In addition, we conducted fieldwork at the three SEAs and the related authorizers from February 5, 2013, through February 12, 2015, at the following locations:

- the Arizona Department of Education, Phoenix, Arizona;
- the Arizona State Board for Charter Schools, Phoenix, Arizona;
- the California Department of Education, Sacramento, California;
- the Long Beach Unified School District, Long Beach, California;
- the Los Angeles Unified School District, Los Angeles, California;
- the Twin Rivers Unified School District, McClellan, California;
- the Oakland Unified School District, Oakland, California;
- the Stockton Unified School District, Stockton, California;
- the Louisiana Department of Education, Baton Rouge, Louisiana; and
- the Lafayette Parish School System, Lafayette, Louisiana.

We held our exit conference on December 14, 2015. Additionally, we performed follow-up work with Title I, IDEA, and CSP program officials to update the Department's oversight and monitoring information through October 2017.

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 finding and conclusions based on our audit objective.

ADMINISTRATIVE MATTERS

This report covers the results of our review of oversight of closed charter schools during the period of July 1, 2011, through June 30, 2013, and the Department's oversight and monitoring information through October 2017. An electronic copy has been provided to your Audit Liaison Officer. We received your comments regarding the Federal role in oversight of charter school closures and proposing an alternative recommendation to those included 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. The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 calendar 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 finding 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 six months from the date of issuance.

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.

We appreciate the cooperation given us during this review. If you have any questions, please call Alyce Frazier at (646) 428-3871.

Sincerely,

/s/

Bryon S. Gordon
Assistant Inspector General for Audit

Attachments

Attachment 1: Acronyms, Abbreviations, and Short Forms Used in This Report

CAP	Corrective Action Plan
CFDA	Catalog of Federal Domestic Assistance
C.F.R.	Code of Federal Regulations
CSP	Charter Schools Program
CSP SEA	Charter School Program State Educational Agencies Planning and Implementation Grant (CFDA 84.282A)
CSP Non-SEA	Charter School Program Non-State Educational Agencies Planning and Implementation Grant (CFDA 84.282B)
Department	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001
FY	Fiscal Year
GAO	Government Accountability Office
IDEA	Individuals with Disabilities Education Act Part B (CFDA 84.027)
LEA	Local Educational Agency
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OMB	Office of Management and Budget
OSERS	Office of Special Education and Rehabilitative Services
SEA	State Educational Agency
SY	School Year
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (CFDA 84.010)

Attachment 2: Selected States Summaries

We performed work in three States—Arizona, California, and Louisiana—and found a significant number of weaknesses in all three States regarding the closure process for the 89 judgmentally sampled closed charter schools in relation to the grant closeout, the disposition of assets, and the protection of student records. We found that SEAs and/or authorizers performed certain activities related to our audit objective that could mitigate some of the weaknesses. Below is a detailed discussion of our work at SEAs and authorizers for the closed charter schools.

Grant Closeout

Arizona

The SEA had procedures but did not ensure that the closed charter schools that were subgrantees of Federal funds submitted the required financial closeout reports to the SEA within 90 days of the schools' closure dates. We found that for 30 of the 45 charter schools we reviewed, Federal funds were not properly closed within the required 90 days of the school's closure date or the end of the school year, when applicable. For 24 of the 30 closed charter schools, the schools did not submit the financial closeout reports timely to the SEA, and for 1 of the 30 schools we could not determine when the closeout reports were submitted and approved. Five of the 30 closed charter schools did not submit the financial closeout reports at all. Because of lack of these reports, the SEA could not determine the remaining unspent Title I and/or IDEA grant funds for the closed charter schools and reallocate the funds to other eligible schools. According to the SEA's grants process director, the Title I, IDEA, and CSP program offices immediately contact the closed charter school's charter holder on notification of an impending closure to request timely submission of the completion reports, place the closed charter school on "programmatic hold" in the SEA's grants management system, and follow up on delinquent completion reports. If a completion report remains delinquent in the SEA's grants management system for 5 years, it is archived with a delinquent status.

California

One of the five authorizers we reviewed in California did not ensure the financial closeout process was performed and documented. We found that 9 of the 23 closed charter schools authorized by the authorizer did not submit a final audit within 6 months after the closure date. In addition, for 2 of the 23 closed charter schools the authorizer did not provide evidence that the final audit report was ever submitted. One of the two charter schools did not submit the final audit because the charter school had no funds to pay for the audit, and the authorizer had limited tools to require the charter school to provide the audit. We reviewed the unaudited financial information for the 23 closed charter schools authorized by the authorizer and determined that the schools spent all available Title I and IDEA funds during the school year they closed and did not owe any Title I or IDEA funds that needed to be recovered. However, we found that 1 of the 23 closed charter schools received an overpayment of $71,898 because the charter school did not meet all of the CSP SEA grant requirements before it closed. The SEA revised the grant award accordingly and billed the charter school for $71,898 to recover the overpaid CSP SEA grant funds. The charter school has not paid the amount that was billed and because the school is no longer operational, the SEA has very little recourse to recover the funds and is unlikely to be successful.

Louisiana

The SEA did not ensure the closeout procedures for Federal funds for 5 of the 13 charter schools we reviewed were performed in accordance with Federal laws and regulations. Based on evidence provided by the SEA, we found that 2 of the 13 closed charter schools did not have final expenditure reports approved within the 90 days of the charter school's closure date. Each charter school had an approved final reimbursement request but submitted the final expenditure report more than 90 days after the closure. One of the 13 closed charter schools did not submit the final expenditure report for the IDEA grant. This charter school had an approved reimbursement request within 90 days of the charter school closure date but also had an available balance of $155 in IDEA funds. Two other closed charter schools had available balances of $61 in Title I and $90 in IDEA funds, respectively. Each charter school in Louisiana is an LEA for funding purposes and receives Federal grant funds through periodic reimbursement requests. This funding practice would not require the SEA to recover unspent funds because the funds would remain as an available balance for the SEA to disburse to the requesting LEA as frequently as needed. According to an SEA official, at the time of closure of the three charter schools with available balances identified above, the Title I and IDEA funds were expiring and were returned to the Department with the Louisiana SEA's unused balances. However, the SEA did not provide evidence that these available balances were returned to the Department. Therefore, as of January 29, 2016, the SEA did not provide evidence that the five charter schools' Federal funds were properly closed within the required 90 days.

Disposition of Assets

Arizona

The SEA did not provide sufficient documentation to ensure assets acquired with Federal funds were disposed of in accordance with Federal laws and regulations for 44 of the 45 charter schools we reviewed. The SEA's Title I and IDEA offices reviewed the assets purchased with Federal funds within its oversight and monitoring activities, but these reviews were not specific to charter schools and charter school closures. The SEA's CSP closure procedures referred the charter schools that received the CSP SEA grant to Federal laws and regulations for disposition of assets. According to Arizona SEA officials, closed charter school assets became the property of the charter holder and would be transferred to other charter schools operated by the same charter holder. For 18 of the 45 closed charter schools, the charter holder remained open and retained the assets of the charter school that closed. However, the SEA did not have an inventory listing for assets acquired with Federal funds for 44 of the 45 closed charter schools or any additional information to indicate the dollar value for the assets and whether the assets were retained by the charter holders, sold, or otherwise disposed of in accordance with Federal laws and regulations.

California

One of the five authorizers we reviewed in California did not maintain sufficient documentation to determine the disposition of assets. The authorizer did not provide sufficient documentation that it properly disposed of the remaining assets for 9 of the 23 closed charter schools.

Louisiana
The SEA did not provide sufficient documentation to ensure assets acquired with Federal funds for 12 of the 13 charter schools we reviewed were disposed of in accordance with Federal laws and regulations. The SEA had procedures, but the procedures did not require the closed charter schools to provide documentation on the disposal of assets purchased with Federal funds. The SEA provided inventory lists that identified the closed charter schools' assets but did not provide any additional information to indicate how these assets were disposed of. We found that for 12 of the 13 charter schools we reviewed, the SEA did not provide sufficient documentation whether the assets acquired with Federal funds were retained by the charter operators, donated for use to other public schools, or sold, and the SEA received the proceeds from the sale.

Student Records
Arizona
The SEA did not ensure that the student information and records for 22 of the 45 closed charter schools were protected and maintained in accordance with Federal laws and regulations. Fifteen of the 22 closed charter schools' student records were maintained by charter holders whose charter was surrendered, revoked, or not renewed. In addition, for 1 of the 15 closed charter schools, the authorizer's information listed an individual with a post office box, but the authorizer did not have information regarding the physical location of the student records. For 5 of the 22 closed charter schools, the location of the student records was available by contacting a person associated with the closed charter school. For 2 of the 22 closed charter schools, the authorizer could not provide information on where the student records were maintained. Because the authorizer did not know the physical location of student records for 2 of the 45 closed charter schools we reviewed, the students may not have been able to obtain copies of their records when applying to another school or postsecondary institution. Student records for the remaining 23 of the 45 closed charter schools were maintained by charter holders that remained in operation, other LEAs, or the authorizer. The authorizer was the custodian for the schools' student records for 4 of the 45 selected closed charter schools. We tested the records for the four closed charter schools and confirmed they were properly stored and maintained. The authorizer also had proper controls to archive the records and provide copies on request. However, we could not verify that the students' records from the four closed charter schools that the authorizer had custody of were complete because the authorizer did not request and maintain student rosters from each closed charter school.

California
In California, two authorizers did not maintain sufficient documentation as it related to the transfer or location of student records. The authorizers developed checklists that contained requirements regarding transfer or location of displaced students' records. We found that for 6 of the 31 closed charter schools we reviewed in California, the authorizers either did not provide the checklists or any additional documentation or did not complete the checklists to indicate whether the transfer of student records was completed.

Louisiana
The SEA did not provide sufficient documentation that it ensured student information and records for 11 of the 13 charter schools we reviewed were protected and maintained in accordance with Federal laws and regulations. For 1 of the 13 closed charter schools, the SEA provided a letter from the charter school confirming the delivery of specific student records. The charter school also provided a full roster of students and indicated the type of documentation

contained in each student's file. For another closed charter school that received funding through a traditional public LEA as noted below, the students and their records were transferred directly to a new school within the school district.

Closure of Charter Schools That Received Funds Through an LEA
Three of the 89 closed charter schools we sampled (2 in California, and 1 in Louisiana) received funds through a traditional public LEA, and the districts' officials followed the LEAs' closeout procedures and ensured proper handling of the schools' closure. We found that the three charter schools converted or transferred from a charter school to a noncharter school, and all continued operations the following school year with essentially the same students and staff and in the district-provided facilities. The LEAs' oversight of the conversions or transfer ensured that the Federal grant funds were properly closed out and the assets, the students, and their records remained with the new schools or were transferred to other schools within the districts.

Activities That Could Mitigate Weaknesses in Charter School Closure Process
We also noted that SEAs and/or authorizers performed certain activities related to our audit objective that could mitigate some of the weaknesses noted above. The following are some examples of these activities.

- In Arizona, the authorizer for the reviewed closed charter schools implemented a new charter school application for the 2014 cycle that required a $6,500 application fee, and provided online technical assistance to new applicants. The application fee paid for reviewers provided by the National Association of Charter School Authorizers. Before this, the reviewers were volunteers. This change has also allowed the authorizer to better allocate staff resources, according to authorizer official.
- In California, in accordance with the State law, each charter petition (contract) contains a comprehensive description of the closeout procedures if the charter school closes. For example, the procedures require completion of a final audit of the charter school to determine the disposition of all assets and liabilities of the charter school, including plans for disposing of any net assets and for the maintenance and transfer of student records.[22] The procedures also required the charter school and/or the authorizer to assist parents and students with transfers to a new school. However, the closed charter schools did not always have funds remaining to pay for the audit.
- In Louisiana, in January 2013, the SEA developed a monitoring tool that established the standards to which charter schools were held in order to eliminate any confusion about whether the authorizer would or would not renew a charter school and why. Starting with SY 2012–2013, the SEA also implemented a tool that assisted students in enrolling in a new school through the application process and allowed for the collection and storage of student applications, enrollment, and transfer data upon a charter school closing. In addition, in January 2012, the SEA contracted with a vendor to scan and maintain student information and records from closed charter schools. The contractor also provided a copy of student information to parents and students and the new incoming school operator.

[22] Arizona and Louisiana charter school laws did not require a similar financial closeout audit of the closed charter school.

Attachment 3: Auditee Comments

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

August 27, 2018

TO: Bryon Gordon
Assistant Inspector General for Audit
Office of Inspector General

FROM: Mitchell M. Zais, Ph.D.
Deputy Secretary

SUBJECT: Response to Draft Audit Report "Nationwide Audit of Oversight of Closed Charter Schools" (ED-OIG/A02M0011)

Thank you for providing the Office of the Deputy Secretary an opportunity to review and respond to the findings and recommendations in the Office of Inspector General's (OIG) draft audit report entitled "Nationwide Audit of Oversight of Closed Charter Schools" (ED-OIG/A02M0011).

We appreciate your consideration of the informal comments that we and the Office of the General Counsel (OGC) provided to you previously on an earlier draft. I am aware that OGC has shared detailed comments on the draft audit. Many of OGC's comments focus on the report's characterization of the Department of Education's role in providing funds to state educational agencies (SEAs) and other oversight issues. We concur with the concerns expressed in OGC's comments. We want to note that, contrary to the statement in the draft report, the Department has provided guidance on closed charter schools. The Office of Innovation and Improvement provided guidance on Charter School Program (CSP) closure requirements, including in a September 28, 2015, Dear Colleague Letter (https://www2.ed.gov/programs/charter/finalsignedcsp.pdf) and an August 4, 2016, letter to CSP SEA project directors (https://innovation.ed.gov/files/2016/08/CSP-Letter-to-SEA-on-Uniform-Guidance-FINAL-08.04.2016.pdf).

The fundamental principle that guides states' implementation of charter schools is to provide charter schools increased levels of autonomy so they may innovate in exchange for increased flexibility in implementing applicable requirements. Charter schools can innovate, experiment, and try new strategies all with the goal of improving student performance. OIG's review of closed charter schools was limited in scope and is somewhat outdated. In the five to seven years since this audit looked at 89 charter school closings in three states, many states have increased accountability for charter school fiscal requirements and expectations for student performance. Stanford University's Center for Research on Education Outcomes (CREDO) 2017 study entitled *Lights Off:*

Practice and Impact of Closing Low-Performing Schools[1] examined 1,522 low-performing schools, including 1,204 traditional public schools and 318 closed charter schools across 26 states. The study found that "the percentage of low-performing schools getting closed was higher in the charter sector than in the TPS [traditional public school] sector."[2] This study also demonstrates the extensive variability across states in how they deal with charter school closures. OIG's review of only three states' data is not representative. "The state is the locus for the formulation and supervision of many education policies and practices. Our data demonstrated that states varied extensively in the prevalence of closing low-performing schools, the academic criteria that were applied in the decision about closures, and the focus on ensuring student academic progress in post-closure periods."[3] The report illustrates the complex dynamics involved in closing charter schools. The report encourages states to learn from one another, including about the processes for closing low-performing charter schools, as they hold traditional and charter public schools accountable.

The OIG audit recommends a set of actions that, if implemented, would be inconsistent with the federal role in education, as embodied in section 103(a) of the Department of Education Organization Act. See 20 U.S.C. §3403(a). Secretary DeVos has reiterated the importance of the federal government's role in respecting "each state's right to offer, operate and design plans tailored to their own unique needs." We recommend that the draft audit's multiple recommendations be deleted in favor of a single recommendation, which properly identifies the balance of federal and state responsibility for the oversight of charter schools. We recommend one recommendation to the Department as follows:

> Identify best practices and relevant requirements for SEAs as they monitor federally funded charter schools regarding federal grant closeout, disposition of assets purchased with federal funds, transfer of students, and protection and maintenance of student records for closed charter schools.

This recommendation would build upon the CREDO report by encouraging states to identify best practices while enabling the Department to assert its appropriate role in our oversight of SEAs and their use of federal funds.

Thank you for the opportunity to review and comment on the draft audit on closed charter schools. Please contact Joseph Conaty at 202-260-8230 if you have further questions.

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[1] Han, Chunping; Raymond, Margaret E.; Woodworth, James L.; Negassi, Yohannes; Richardson, W. Payton; Snow, Will; *Lights Off: Practice and Impact of Closing Low-Performing Schools*, Volume I; CREDO Center for Research on Education Outcomes, Stanford University; Stanford, CA; 2017.
[2] *Lights Off: Practice and Impact of Closing Low-Performing Schools: Executive Summary*; CREDO Center for Research on Education Outcomes; Stanford University; Stanford, CA; 2017; Page 4.
[3] *Lights Off: Practice and Impact of Closing Low-Performing Schools: Executive Summary*; CREDO Center for Research on Education Outcomes, Stanford University; Stanford, CA; 2017; Page 6.