

November 2007

DISTRICT OF  
COLUMBIA  
OPPORTUNITY  
SCHOLARSHIP  
PROGRAM

Additional Policies  
and Procedures Would  
Improve Internal  
Controls and Program  
Operations





Highlights of [GAO-08-9](#), a report to congressional requesters

## Why GAO Did This Study

The D.C. School Choice Incentive Act created the first private kindergarten-through-grade-12 school-choice program supported by federal funds. The program was named the D.C. Opportunity Scholarship Program (OSP). GAO was asked to assess the (1) accountability mechanisms governing the use of funds, (2) results of the grantee's efforts to meet the program's recruiting priorities and eligibility requirements and inform parents of their choices, and (3) extent that the evaluation of OSP reflects statutory requirements and the implementation of the program supported the detection of useful and generalizable findings. To assess the program, GAO analyzed financial, program, and evaluation data. GAO did not assess the performance of participating private schools nor did GAO evaluate the impact of the program.

## What GAO Recommends

The Secretary of Education should direct the grantee to improve internal controls, continue to integrate its financial systems, improve monitoring, and provide accurate information to parents. The Secretary and the Mayor of the District of Columbia should ensure participating schools are in compliance with District requirements. The Secretary should ensure that programs are implemented in accordance with any required evaluation. The entities providing comments on this report generally agreed with our recommendations but disagreed with many findings.

To view the full product, including the scope and methodology, click on [GAO-08-9](#). For more information, contact Cornelia M. Ashby at 202-512-7215 or [ashbyc@gao.gov](mailto:ashbyc@gao.gov).

# DISTRICT OF COLUMBIA OPPORTUNITY SCHOLARSHIP PROGRAM

## Additional Policies and Procedures Would Improve Internal Controls and Program Operations

### What GAO Found

Following the Department of Education's selection of the Washington Scholarship Fund (WSF) to operate the District of Columbia Opportunity Scholarship Program, WSF greatly expanded its operations from \$150,000 in federal and foundation grants in fiscal year 2004 to \$12.9 million in 2006 without sufficient accountability mechanisms to govern the use of the funds. With such rapid expansion, WSF had little time to design and implement the needed systems, procedures, and internal controls for managing such a major increase in its operations. WSF's accountability was further weakened by high staff turnover, a lack of detailed fiscal policies, and nonintegrated accounting functions. We found that WSF did not adhere to its own procedures for making scholarship payments, and WSF's use of OSP funds to pay tuition for students attending schools that do not normally charge students tuition is not in accordance with the Act. Additionally, on the basis of a lack of documentation about whether before-and-after care included academic support, GAO was unable to determine if use of OSP funds to pay these fees was in accordance with the Act.

Despite recruitment efforts and efforts to inform parents of their choices, WSF faced challenges recruiting students from schools designated as in need of improvement, ensuring private school quality and placement opportunities, and providing parents with accurate information regarding private schools. Students who were offered scholarships generally reported income consistent with OSP's financial eligibility standards, but, among students offered scholarships, students from schools in need of improvement were underrepresented relative to their presence in the population of District students. Although most private schools in the District officially participated in the program, the schools varied widely in the number of openings available to scholarship students, and few openings were available at the secondary level. The characteristics of participating schools varied, and some schools did not meet basic requirements to operate in the District, but the information WSF provided to parents to help them choose schools for children was not always complete and correct.

The evaluation contractor developed a strong evaluation design that reflected the statutory requirements and used random assignment to strengthen comparisons between students offered and not offered scholarships. However, factors related to program implementation limited the ability to perform comparisons directed by the Act and the usefulness and generalizability of findings. For example, the Act directed the evaluation contractor to use the same test as the District used to measure achievement and to compare the achievement of students offered scholarships with students in District public schools. The contractor did use the test used by the District, but District officials adopted a new testing program the second year of the evaluation, making it infeasible to compare students offered scholarships with students in District public schools.

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### **Abbreviations**

OSP	Opportunity Scholarship Program
MOU	memorandum of understanding
MPCP	Milwaukee Parental Choice Program
SSP	Signature Scholarship Program
WSF	Washington Scholarship Fund

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United States Government Accountability Office  
Washington, DC 20548

November 1, 2007

The Honorable Edward M. Kennedy  
Chairman, Committee on Health, Education, Labor, and Pensions  
United States Senate

The Honorable Richard J. Durbin  
Chairman, Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate

The Honorable Eleanor Holmes Norton  
House of Representatives

In an effort to enhance educational opportunity for children from low-income families in the District of Columbia (the District), Congress passed the D.C. School Choice Incentive Act in January 2004.<sup>1</sup> The Act created a private school scholarship program, subsequently called the D.C. Opportunity Scholarship Program (OSP), for low-income students living in the District of Columbia, setting a precedent for the use of federal funds to provide scholarships to finance private education for students in kindergarten through grade 12. The purpose of the Act is to provide low-income parents of students in the District, particularly parents of students who attend public schools identified as in need of improvement under the No Child Left Behind Act,<sup>2</sup> “with expanded opportunities for enrolling their children in higher performing schools in the District” by providing annual scholarships of up to \$7,500 per child. The D.C. School Choice Incentive Act directed the Secretary of Education to award a grant for up to 5 years to an eligible entity or entities to operate the program, giving priority to grant applicants who would most effectively give priority to students from schools in need of improvement, target resources to students and families that lack financial resources to take advantage of available educational options, and provide students and families with the widest range of educational options. The Act also directed the Secretary and the Mayor of the District of Columbia to select an independent evaluator to compare outcomes, including academic achievement, for several groups of children,

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<sup>1</sup> Public Law No. 108-199, title III, 1118 Stat. 3, 126 (Jan. 23, 2004).

<sup>2</sup>The No Child Left Behind Act of 2001 reauthorized the Elementary and Secondary Education Act.

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such as participating eligible students and eligible students who were not offered scholarships and participating eligible students and students in District Public Schools. The evaluation was also to examine the effect of the program on District public schools.

You asked us to assess the implementation of the program, including the (1) accountability mechanisms in place governing the use of funds, (2) results of the grantee's efforts to meet the program's recruiting priorities and eligibility requirements and inform parents about their choices, and (3) extent to which the evaluation reflects statutory requirements and the implementation of the program supported the detection of useful and generalizable findings.

To address these issues, we used multiple strategies. To assess the accountability mechanisms governing the use of funds, we interviewed officials of the Washington Scholarship Fund (WSF), the grantee operating the program, of the Department of Education's Office of Innovation and Improvement and of the District of Columbia; reviewed documents describing the grantee's processes for implementing the program; analyzed WSF's financial statements; obtained and reviewed detailed financial data from WSF; and tested specific internal controls over payments. To assess the results of the grantee's efforts to meet the program's recruiting priorities and eligibility requirements and inform parents about their choices, we interviewed officials at the Office of Innovation and Improvement and the grantee; examined pertinent documentation; and analyzed students' demographic data, characteristics of participating schools, and information provided to parents. We reviewed information on private schools from WSF and public sources, but we did not assess specific private schools or their performance. We did not evaluate the impact of the program, which was the subject of Education's evaluation. We reviewed WSF's process for collecting financial eligibility information, the records maintained by WSF on household income data reported by parents of scholarship recipients, and the findings on eligibility made by the grantee's auditor. We did not perform independent testing of eligibility. To assess the extent to which the evaluation reflects statutory requirements and program implementation supported the detection of useful and generalizable findings, we interviewed officials at Education's Institute of Education Sciences and at Westat—the evaluation

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contractor—reviewed Westat’s and its affiliates<sup>3</sup> reports for year one and year two of the OSP that described the participation of students and schools in the program, analysis plan, and evaluation of the results of the program after 1 year of participation. In assessing data reliability, we found problems with WSF’s and the evaluation contractor’s program data systems, which we discuss in appendix 1, that limited the analyses that we could perform. We brought these issues to the attention of Education, WSF, and the evaluation contractor. However, we were able to perform sufficient analyses to answer the study’s questions. We conducted our work between September 2006 and September 2007 in accordance with generally accepted government auditing standards. (For more detail on our scope and methodology, see app. 1.)

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## Results in Brief

Following the Department of Education’s selection of WSF to operate the District of Columbia Opportunity Scholarship Program, WSF greatly expanded its operations from \$150,000 in federal and foundation grants in fiscal year 2004 to \$12.9 million in 2006 without sufficient accountability mechanisms to govern the use of the OSP funds. Rapid expansion and new demands put at risk WSF’s accountability for its use and safeguarding of federal funds. This accountability risk was increased by high turnover in key staff positions. WSF did not develop the comprehensive and detailed fiscal policies and procedures needed for internal control over its financial and programmatic operations. WSF’s draft policies and procedures lacked key control activities and did not detail procedures for approving scholarship payments or require documentation that procedures were carried out as required. WSF’s automated financial systems were not interfaced, and reliance on manual processes between automated systems increased the risk of error. Serious weaknesses in the implementation of internal controls affected the processing of OSP scholarship payments, reconciliations between financial records and bank statements, and assurance that participating schools were financially responsible. For example, while WSF established policies to help ensure that OSP funds are used to pay for services in accordance with the Act establishing the program, WSF’s use of OSP funds to pay tuition for students attending schools that do not normally charge students tuition is not in accordance with the Act. However, WSF maintains that students attending these

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<sup>3</sup>The participation reports and analysis plan were prepared by Westat in affiliation with Georgetown University and Chesapeake Research Associates; the program evaluation was prepared by Westat in affiliation with the University of Arkansas, Georgetown University, and Chesapeake Research Associates.

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schools are supported by scholarship dollars just as those who receive OSP funds. Furthermore, our review questions certain other payments, but we were unable to determine if they were allowable because these payments lacked documentation.

Despite efforts to recruit eligible applicants and private schools and inform parents, WSF faced challenges recruiting students from schools in need of improvement, ensuring private school placement opportunities and quality, and providing parents with accurate information regarding private schools. WSF designed procedures to ensure that scholarship recipients met program financial eligibility standards and income data reported by parents of participants were broadly consistent with income guidelines. While students from schools in need of improvement had priority for receiving scholarships, for each year the program has operated, the percentage of students from schools in need of improvement who were offered scholarships has been smaller than the percentage of students in District public schools who attended such schools. Although most private schools in the District officially participated in the program, the schools varied widely in the number of openings available to scholarship students, and very few openings were available at the secondary level. In school year 2006-2007, more than half the scholarship students were concentrated in 19 participating private schools, and 16 private schools had enrolled five or fewer OSP students. The extent to which private schools had characteristics associated with high-quality educational programs has varied. For example, some schools reported that some of their teachers lacked at least a bachelor's degree. Furthermore, some participating schools did not meet basic requirements to operate in the District. For example, a few had no certificate of occupancy on file with the District or had certificates that did not specify educational use. Despite important variation among schools, the grantee did not always provide parents with complete and accurate information on their characteristics. For example, WSF provided parents inaccurate information on teachers' qualifications and tuition for some schools.

The evaluation contractor developed a strong methodology that used random assignment to strengthen comparisons between students offered and not offered scholarships, but factors related to program implementation limited the ability to perform the comparisons directed by the Act and the usefulness and generalizability of evaluation findings. For example, although the Act directed the evaluators to compare the achievement of participating eligible students who used scholarships with students in the same grade in District public schools, the evaluation contractor could not reasonably or cost-effectively make these

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comparisons. Although the evaluation contractor administered the same tests to measure achievement as were given by the District in the first year, the District adopted a new achievement testing program during the second year of the program for students in grades 3-8 and grade 10. This meant that a common test was no longer available for the program's 5 years of operation and made it necessary to pay the evaluation contractor to test more students than planned because, in addition to testing students with OSP scholarships in private schools, the contractor also had to test eligible applicants in District public schools who were not offered scholarships. Also, the Act called for comparisons of dropout rates, graduation rates, and college admission rates of scholarship program participants and nonparticipants, but the limited placements offered by high schools restricted the number of high school students and graduates in the evaluation and eliminated the evaluator's ability to make these comparisons. Because the WSF awarded many scholarships nonrandomly and to some students who already attended private schools, the number of students who could be included in the evaluation was diminished, reducing the ability of the evaluation's statistical tests to identify differences between groups and the strength of possible findings. Other factors arising from the operation of the program, including the inability of some students who were offered scholarships to find placements and the provision of school or community based supplemental services to some scholarship recipients might have made the interpretation of findings difficult and also might have limited the usefulness of the evaluation to programs in other jurisdictions.

To improve OSP, we are making several recommendations to the Secretary of Education and the Mayor of the District of Columbia. To better focus resources on achieving the program's goals of providing accountability, quality educational experiences, and allowing parents to make an informed school choice for their child, we recommend that the Secretary direct the grantee to establish policies and procedures that improve certain internal controls, continue efforts to integrate its financial systems, improve monitoring, and provide accurate and complete information to parents. We are also recommending that the Secretary and the Mayor of the District of Columbia take specific steps to improve private school compliance with applicable District requirements and improve oversight of the program. Finally, we recommend that, in planning for future programs for which Congress has required an evaluation, Education should oversee the program to ensure consistency between program implementation and the evaluation design.

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We sent this report to the Office of the Mayor of the District of Columbia, Education and WSF for review and comment. (Comments are reprinted in appendixes III, IV, and V, respectively.) These entities generally agreed with our recommendations, but Education and WSF disagreed with many of our findings. Education officials raised concerns related to scope of the assignment and stated that the draft report did not present a complete and balanced picture of issues such as the extent to which OSP students previously attended schools in need of improvement. In addition, Education provided comments indicating that GAO should have focused on the percentage of students whose former schools were identified for improvement by the end of the students' first year in the OSP. We disagree. Scholarship lottery organizers could not be expected to give priority to students from schools that had not yet been identified. Moreover, regardless of which year is used, the percentage of students from schools in need of improvement was smaller among scholarship recipients than among the general population of District students from whom scholarship recipients could have been recruited. Education also indicated we should have provided more information on the speed with which the program was implemented, satisfaction among parents, demand for scholarships, and participating schools' traditional independence in areas such as hiring and establishing teacher qualifications. As discussed further in our response beginning on page 46, we believe that these subjects were addressed in a complete and balanced fashion to the extent that they were included in the scope of our review. Moreover, we found that lack of reliable data on applicants limited the analysis we could perform to determine the demand for scholarships. We agree that participating schools had independence in areas such as hiring and establishing teacher qualifications, but note that participating schools are also required to be in compliance with District education and safety requirements. In its comments, WSF also acknowledged that some of GAO's recommendations, findings, and observations were valid and useful and that it had taken or will take action to address some of them but disagreed with many of our observations, interpretations, and findings. While WSF implies that the deficiencies noted in this report are minor in nature and disagreed with our conclusion that the Act prohibited payments to schools that customarily charged no tuition, we stress that the issues we identified are indicative of potential problems and if not addressed could have a material, detrimental effect on WSF's accountability over federal funds, especially when combined with the accounting systems and cash reconciliation weaknesses that existed. As we noted above in our response to Education, we believe the findings and interpretations are accurate as stated in the draft and therefore have not made changes other than technical corrections.

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## Background

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### The D.C. School Choice Incentive Act

The D.C. School Choice Incentive Act of 2003 directs the Secretary of Education to award a grant on a competitive basis for up to 5 years to an entity or entities to use to make scholarship payments to parents of eligible students to be used for private school tuition, fees, and transportation expenses. The Act directs the grantee to ensure that the amount of tuition or fees that a participating private school charges a scholarship student does not exceed the tuition or fees that the school customarily charges to students not participating in the scholarship program. Under the Act, Education could not approve a request for a grant unless the entity's application detailed how it would, among other things:

- address the priorities identified in the Act—that is, giving priority to students who attended schools identified as in need of improvement,<sup>4</sup> targeting resources to families that lacked resources to take advantage of available educational options, and providing students and families with the widest range of educational choice;
- ensure that if more eligible students seek admission in the program than the program can accommodate, eligible students are selected for admission through a random selection process that gives weight to the program priorities;
- notify parents of eligible students of expanded choice opportunities and ensure that parents receive sufficient information about their options to allow the parents to make informed decisions;
- determine the amount that would be provided to parents for the tuition, fees, and transportation payments, if any;
- seek private elementary and secondary schools in the District to participate in the program, and ensure that participating schools would meet the application and reporting requirements of this Act;
- ensure that participating schools were financially responsible and would use funds effectively; and
- address the renewal of scholarships to participating eligible students, including continued eligibility.

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<sup>4</sup> Under the No Child Left Behind Act, if a school that receives Title I funds fails to meet certain performance goals for 2 years, it is designated as in need of improvement. Schools that do not meet these goals in 4 years are subject to corrective action and after 5 years, are subject to restructuring. This report uses the term “in need of improvement” to refer to all three categories.

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The Act limits payments for each scholarship student to \$7,500 per year. If tuition exceeds the \$7,500 cap, schools may supplement the \$7,500 with private scholarships or donated funds, absorb the difference, or work out payment plans with parents or guardians. According to the program requirements established by WSF, participating private schools may apply their own admission standards and decide whether to admit students who have received an OSP scholarship. The program's funding allowed scholarships for about 2,000 District students out of a public school population of about 72,000. (App. II presents a comparison of the District of Columbia school choice program and programs in several states and cities.)

The Department of Education's Office of Innovation and Improvement awarded a grant to operate the program to WSF, a nonprofit organization in the District of Columbia that had experience providing privately funded scholarships to low-income students. WSF offered its first scholarships under OSP for the 2004-2005 school year, and the program recently completed its third year of operation with the conclusion of the 2006-07 school year. The Act required that scholarships be awarded through lotteries if the number of eligible applicants exceeded the number of private school placements available or the number of scholarships that the program could accommodate.

In these lotteries, students were assigned different priorities for receiving a scholarship. Students attending schools in need of improvement received the highest priority, followed by students who had attended a public school not in need of improvement, followed by students from private schools. The number of District schools assigned the designation of needing improvement has increased from 2003 to 2006, and the designations are updated following the school year.

The Act also required that the Secretary award a contract to an entity jointly selected by the Secretary and the Mayor of the District of Columbia for an independent evaluation that would use "the strongest possible research design" to determine the effectiveness of the program. The evaluators were to provide (1) a comparison of the academic achievement of participating eligible applicants who were offered scholarships and those who were not; (2) a comparison of the academic achievement of applicants who were offered scholarships and children attending District of Columbia Public Schools; (3) comparisons of drop-out rates, graduation rates, and college admission rates of students who participate in the program with students in District schools who do not participate; (4) a comparison of the safety of schools attended by participants in the

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program and the schools attended by students who do not participate in the program; (5) measures of the effect of the program on District public schools and their students; and (6) the success of the program in expanding choice for parents. The Secretary awarded the evaluation contract to Westat and its affiliates.

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### Additional Laws and Agreements Governing Administration of the OSP

The Act required that Education and the District enter into a memorandum of understanding (MOU) regarding the implementation of the D. C. School Choice Incentive Program. It directed that the MOU conform to requirements contained in the conference report accompanying the Act. In that report, the conferees stated their expectation that the MOU would include (1) strong accountability measures and specifications for program performance evaluations; (2) specifications for a lottery system providing for fair and unbiased acceptance of students into the program; (3) provisions for joint oversight of the program's operations by the Mayor of the District of Columbia and the Secretary of Education; (4) the methodology for the evaluation and selection of participating schools that have met the District of Columbia's current licensure requirements; (5) the methodology for determining the tuition and fees of participating schools, including the actual cost; (6) requirements for the development of appropriate oversight and accountability measures; and (7) teacher quality criteria.

The MOU reflected this language in part. It identified Education's Deputy Under Secretary of Innovation and Improvement as having lead responsibility for implementation of the OSP, Education's Institute of Education Sciences as having lead responsibility for implementation of the evaluation, and the Mayor or his designee as having lead responsibility for carrying out cooperative activities between the District and Education. It also specified that Education and the Mayor would jointly oversee the program and ensure it was carried out in accordance with statutory requirements, the approved grant application, and sound management and educational principles. Also, the MOU conditioned schools' participation, in part, on "operating lawfully within the District of Columbia," –meaning that participating schools meet all the District of Columbia's current requirements. For example, the Code of District of Columbia Municipal Regulations requires that for purposes of the District's compulsory attendance law, private schools must provide evidence that they are currently accredited by or undergoing the accreditation process from one

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of seven named organizations or any other accrediting body approved by the Board of Education, or that they submit evidence of their educational soundness acceptable to the Board.<sup>5</sup> Accreditation provides assurance that a school's course credits can be counted toward a District diploma or accepted by other schools. Operating lawfully in the District of Columbia also entails meeting additional District requirements, such as securing a certificate of occupancy to demonstrate compliance with health, safety, and fire code requirements. WSF's grant application indicated that it would require participating private schools to "attach their Certificate of Occupancy [to their letter of intent to participate] and document that they are in compliance with all relevant D.C. health, safety, and fire code requirements." Further, the MOU stated that the grantee was to provide information on each participating private school to parents of students offered scholarships including, but not limited to, teacher qualifications, the academic achievement of the school's students, and the safety and environment of the school. However, the MOU did not include a methodology for determining actual tuition and fees, or specify oversight and accountability measures and teacher quality criteria.

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### Initiation and Funding of the Opportunity Scholarship Program

Soon after the D.C. School Choice Incentive Act was passed, Education awarded the grant to operate the OSP to the Washington Scholarship Fund, which was the only entity that submitted a complete proposal. Table 1 shows the timing of key events in the implementation and operation of OSP.

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<sup>5</sup> D.C. Municipal Regulations 2100.2 and 2100.3.

**Table 1: Key Events in Implementing and Operating the OSP**

Date	Event
January 23, 2004	Congress enacted the D.C. School Choice Incentive Act of 2003
February 3, 2004	The District's Mayor selected Fight for Children to serve as the interim, nonprofit entity charged with conducting early outreach and publicity efforts
March 24, 2004	Education awarded the grant to Washington Scholarship Fund to operate the DC School Choice Program
March 26, 2004	Education awarded a contract to provide technical assistance for placement lotteries
Late March 2004	Outreach efforts and preliminary data on interested families were transferred from Fight for Children to WSF
Late March-late August 2004	WSF developed application and eligibility determination processes, and program management systems and continued multifaceted recruitment and outreach efforts
April 16, 2004	The evaluation contractor and its affiliates submitted a proposal to conduct the evaluation
Mid-April –Mid-May 2004	WSF collected its first applications from potential scholarship families and held orientation meetings at the Washington Convention Center
April-May 2004	Families submitted applications, and WSF and its contractor processed applications and conducted eligibility determination
May 11, 2004	Deadline for private schools to report available number of openings by grade for first school year of program
June 17, 2004	WSF conducted lottery for awarding year one scholarships
July 21, 2004	Education awarded a contract for the evaluation of the program to the firm contracted to provide technical assistance on placement lotteries
August/September 2004	First school year of Opportunity Scholarship program began with 1,027 OSP students enrolled in private schools
May 2005	WSF held lotteries for awarding scholarships
August/September 2005	Second school year began; 1,661 OSP students were enrolled in private schools
March 2006	Deadline for parents to apply for a scholarship for the 2006-07 school year; only children entering grades kindergarten through 5th grade could apply for new scholarships.
August/September 2006	Third school year began, with about 1,743 OSP students enrolled in private schools
December 20, 2006	Congress passed legislation raising the eligible income level to 300 percent of the poverty line for students who received scholarships during the first two years of the program
June 2007	Education released Evaluation of the DC Opportunity Scholarship Program: Impacts After One Year

Source: GAO analysis of information from Education and WSF.

As shown in table 2, \$14 million was initially appropriated to Education in each of fiscal years 2004 through 2006. Each year's appropriation was reduced through subsequent rescissions. Table 2 also shows the flow of funds from Education to the program. Specifically, of the funds for fiscal year 2006, Education received \$13.86 million. Of this amount, about \$12.45 million was awarded to WSF in the form of a federal grant to operate the OSP. The amount of funding retained by Education, \$1.4 million, was provided to Education's Office of Innovation and

Improvement for program administration and oversight (\$0.1 million) and to Education’s Institute of Education Sciences for an evaluation of the program (\$1.3 million) as mandated by the Act. Funds disbursed to the grantee, WSF, are to be expended for tuition, fees, transportation, and program administration. According to WSF, the majority of funds donated by private sources are used for eligibility determination, infrastructure, and other technical systems development and maintenance, and student placement.

**Table 2: Opportunity Scholarship Program Federal Funding for Fiscal Years 2004–2006**

Sources and disbursement of funds	2004	2005	2006
<b>Appropriation to Education</b>			
Federal appropriation	\$14,000,000	\$14,000,000	\$14,000,000
Rescission <sup>a</sup>	(82,600)	(112,000)	(140,000)
Net appropriations to the U.S. Department of Education	13,917,400	13,888,000	13,860,000
<b>Disbursement of grant funds</b>			
Department of Education			
Institute of Education Sciences	1,344,822	1,308,640	1,305,877
Office of Innovation and Improvement (OII)	66,800	100,000	99,923
Grant provided to WSF	12,505,778	12,479,360	12,454,200
<b>Total funds disbursed to Education and WSF</b>	<b>13,917,400</b>	<b>13,888,000</b>	<b>13,860,000</b>

Source: GAO analysis of appropriations laws and allotments data.

<sup>a</sup>Congress enacted across-the-board rescissions for appropriations made for fiscal years 2004, 2005, and 2006. The rescissions were 0.59 percent for fiscal year 2004, 0.80 percent for fiscal year 2005, and 1 percent for fiscal year 2006.

The Act provided that the grantee may not use more than 3 percent of the total amount provided under the grant each year for the administrative expenses of carrying out the program during the year, including (1) determining the eligibility of students to participate, (2) providing information about the program and the schools involved to parents of eligible students, (3) selecting students to receive scholarships, (4) determining the amount of scholarships and issuing the scholarships to eligible students, (5) compiling and maintaining financial and programmatic records, and (6) providing funds to assist parents in meeting expenses that might otherwise preclude the participation of their child in the program. WSF officials defined administrative expenses as any program expenses other than tuition, fees, and transportation. These administrative expenses generally included direct expenses, such as student eligibility reviews and payroll, and indirect expenses, such as rent and utilities.

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## WSF's Accountability and Internal Control Were Inadequate for OSP, and Some Payments Were Not Made in Accordance with the Act While Others Raise Questions about Compliance

After being selected as the OSP grantee, WSF struggled with developing and implementing accountability mechanisms and internal controls in the management of federal and foundation grants that increased from \$150,000 in fiscal year 2004 to \$12.9 million in fiscal year 2006. Further, with the addition of OSP to its operations, WSF was challenged to find systems and approaches for community outreach, school placement, family and school support, and financial management while implementing the program. Due to its need to quickly implement the program, WSF had little time to develop internal control policies and procedures, systems, and internal control activities needed to provide accountability over the use of grant funds for this new program.<sup>6</sup> WSF had to rely on the knowledge of its staff to perform the daily operations for OSP, and its ability to rely on its key staff was greatly affected by high staff turnover. The discovery of fraud allegedly perpetrated by a WSF employee affecting one of its private scholarship programs highlighted the need for strengthened internal control activities. The lack of comprehensive policies and procedures, the use of nonintegrated systems, and the outsourcing of basic bookkeeping functions increased risk and weakened WSF's accountability over OSP. Moreover, we found that WSF did not consistently adhere to the basic accountability and internal control procedures it had established for scholarship payments. In reviewing OSP scholarship payments, we found that WSF's practice of paying for tuition scholarships to schools that do not normally charge students tuition is a violation of the Act because the Act provides that the tuition charged OSP students cannot be more than the tuition charged for similarly situated non-OSP students. Furthermore, we could not determine whether payments for before-and-after care programs were appropriate because the documentation provided by WSF did not indicate that it had verified that the care programs met the criteria for determining whether a fee is allowable. Based on the documentation provided by WSF, we could not determine that WSF verifies that before-and-after school care programs are tied to the student's academic program and part of customary fees charged by the school, which are Education and WSF's key criteria under the Act for determining whether a fee is allowable.

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<sup>6</sup>Accountability can be defined as an organization's ability to effectively demonstrate to both internal and external parties that resources are managed properly, programs are achieving intended goals and outcomes, and programs are being provided effectively and efficiently. To achieve accountability, organizations need internal control activities that provide reasonable assurance that (1) operations are effective and efficient, (2) financial reporting is reliable, and (3) compliance with laws and regulations is being achieved. [GAO/AIMD-00-21.3.1](#).

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**WSF's Rapid Growth and High Staff Turnover Created Accountability Risk for the Opportunity Scholarship Program**

Following its selection as a grantee in March 2004, WSF rapidly expanded its scholarship operations to provide OSP scholarships to students for the upcoming 2004-2005 school year.<sup>7</sup> This rapid expansion can be seen in the increase of WSF's annual federal and foundation grants from \$150,000 in fiscal year 2004 to \$8.6 million in fiscal year 2005, and to \$12.9 million in fiscal year 2006. (See table 3.) WSF, charged with running OSP, had to create systems for community outreach, school placement, and family and school support while implementing the program, and WSF faced the challenge of accomplishing school search and enrollment activities before the beginning of the 2004-2005 school year. WSF was also challenged to find ways in which thousands of OSP checks could be correctly generated, accounted for, and monitored for compliance with statutory requirements. With this rapid expansion, WSF had little time to design and implement the needed systems, policies, procedures, and internal controls for managing such a major increase in its operations. While WSF was able to process the OSP scholarship payments for school years 2004-2005 and 2005-2006, it used systems that were not integrated, resulting in data being manually transferred, and thereby increasing the risk of error. Also, WSF's basic bookkeeping and accounting functions, including the printing of OSP scholarship checks and preparation of bank reconciliations, were not integrated, contributing to the fragmentation of WSF's OSP operations and weakened accountability.

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<sup>7</sup>OSP is the largest of WSF's scholarship programs. WSF currently provides scholarship funds to about 2,400 students, over 1,800 of which receive OSP scholarships.

**Table 3: Growth in WSF from Fiscal Years 2003—2006**

Financial statement line item	Fiscal year ending June 30			
	2003	2004	2005	2006
Federal and foundation grants <sup>a</sup>	— <sup>b</sup>	\$150,000	\$8,563,995	\$12,893,898
Contributions and grants	\$1,801,251	\$1,929,707	\$1,576,706	\$1,793,409
<b>Total</b>	<b>1,801,251</b>	<b>2,079,707</b>	<b>10,140,701</b>	<b>14,687,307</b>
Scholarships expense <sup>c</sup>	1,967,480	2,268,942	9,043,594	14,108,731
Expenditures of federal awards	— <sup>d</sup>	— <sup>d</sup>	6,570,407	11,664,898

Source: WSF audited financial statements for fiscal years ending June 30, 2003, 2005, and 2006.

<sup>a</sup>While OSP is a major federal program for WSF, WSF also has received a 2-year “Next Generation” grant from the Corporation for National and Community Service. This 2-year grant is designed to help organizations build programs in community service and volunteerism.

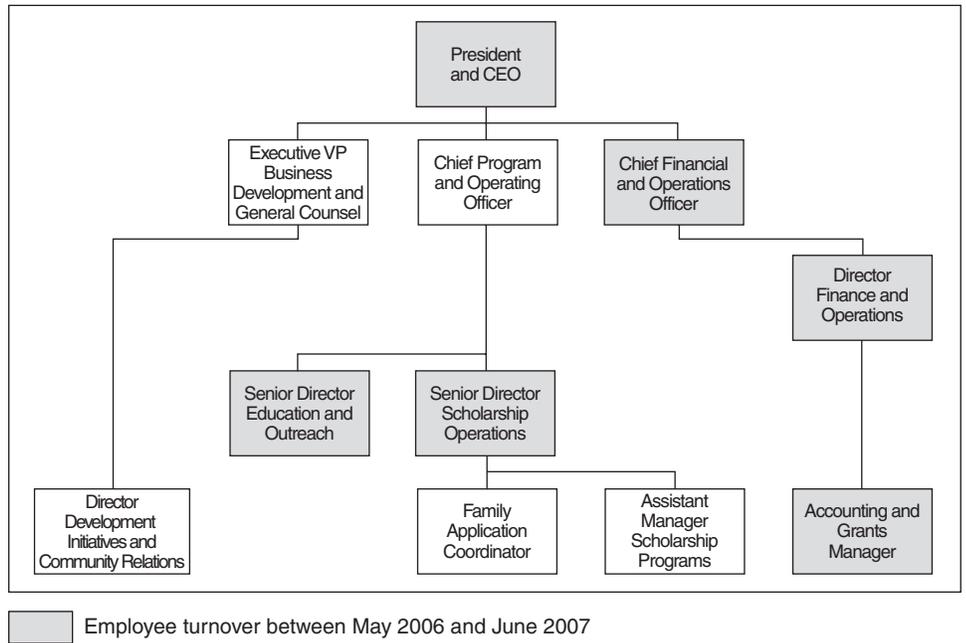
<sup>b</sup>Beginning with fiscal year 2004, WSF reclassified contributions and grants for comparative purposes to show the federal and foundation grants separately from contributions.

<sup>c</sup>This expense includes scholarships paid by WSF under both its publicly funded OSP and its Signature Scholarship Program, which is privately funded.

<sup>d</sup>Single audits, which include the schedule of expenditures of federal awards, are required for grant recipients who expend \$500,000 or more in federal awards in each year. These amounts are not available because WSF expended less than \$500,000 in federal grants and therefore was not required to submit a single audit report for fiscal years 2003 and 2004.

WSF’s rapid growth, the changing nature of its systems and processes for OSP scholarship payments, and the lack of comprehensive and detailed procedures meant that WSF had to rely on the knowledge of key staff to perform daily operations. However, the ability of WSF to rely on institutional knowledge was greatly affected by staff turnover in key positions. (See fig.1.) The Chief Financial and Operations Officer resigned in May 2006. WSF’s Accounting and Grants Manager resigned in January 2007 and the Director, Finance and Operations resigned in February 2007. The Senior Director Education and Outreach left WSF during that time. The President and Chief Executive Officer then left in May 2007. The Senior Director for Scholarship Operations—a key person who understood WSF’s scholarship payment processes for the OSP—resigned in June 2007. Staff turnover at WSF, combined with the lack of established accountability procedures and systems, has significantly increased WSF’s overall fiscal and program operations risk.

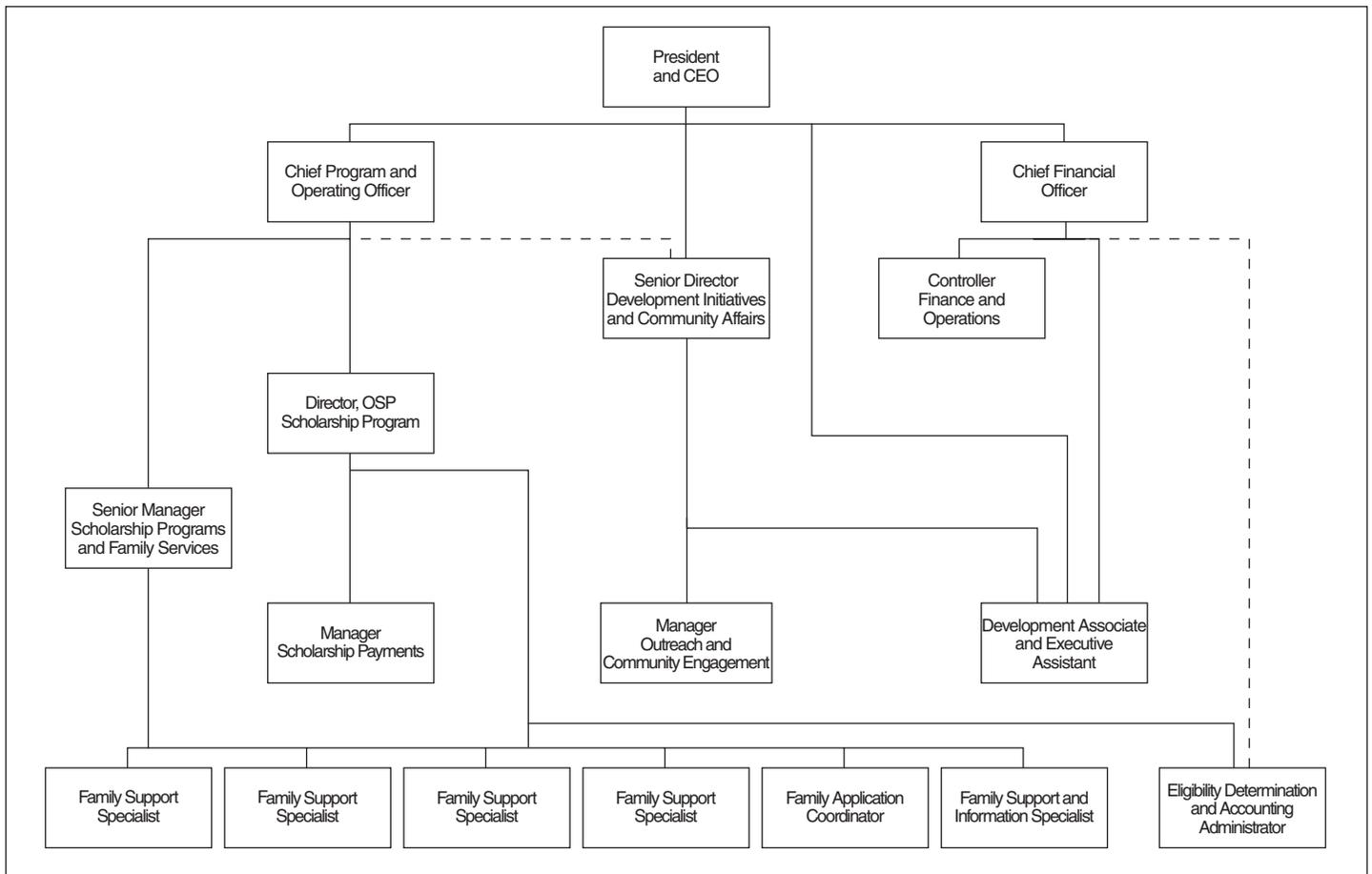
**Figure 1: WSF Staff Turnover between May 2006 and June 2007 Based on Positions in Place in August 2006**



Source: Washington Scholarship Fund.

WSF has recently increased its staff significantly. A comparison of figure 1 and figure 2 shows this increase in staff resources from 11 staff in May 2006 to 17 staff in August 2007. Staffing is supplemented by interns who work with the full-time staff on both of WSF's scholarship programs.

**Figure 2: Reporting Structure Among WSF Staff as of August 2007**



Source: Washington Scholarship Fund.

**WSF’s Accountability Was Further Weakened by a Lack of Comprehensive Fiscal Policies and Procedures and Use of Nonintegrated Systems for Basic Bookkeeping and Accounting Functions**

WSF’s accountability over OSP scholarship payments was further weakened by a lack of comprehensive and detailed policies and procedures to guide its processing of receipts and payment of scholarships and administrative expenses. For the fiscal year ended June 30, 2005, WSF’s external auditor reported that WSF was in the process of developing a formal accounting manual documenting its procedures. The auditor stated in a letter to WSF management that this type of accounting manual is necessary to ensure that transactions are treated in a standardized manner. In its letter, the auditor also noted that written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, wasted effort, duplicated or omitted

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procedures, as well as other situations that can result in inaccurate or untimely accounting records. The auditor recommended that WSF include in its accounting manual descriptions of each fiscal procedure—including payment of invoices, maintenance of accounts receivable subsidiary ledgers, and payroll procedures.

In February 2007, WSF provided us with a copy of its *Internal Systems Review*, which was still in draft form and provided only general process descriptions. The document was created in response to the recommendation from its external auditor. WSF officials told us that its operations team would be continually writing and editing this document to further encourage organizational and financial integrity in its daily operations. The officials added that they expected the fiscal policies and procedures document to be final once WSF's new nonprofit financial management software is operational. As of late June 2007, WSF officials stated that this new software would be operational for processing the 2007-2008 scholarship payments. The February 2007 draft provides a high-level description of the processes for receipts, OSP and other scholarship payments, administrative expenses, human resources, and budgeting/bank reconciliations. However, without extensive on-the-job training, the descriptions in this document are not adequately detailed for use in carrying out the procedures or for use in holding individuals responsible for key internal controls and accountability.

The policies described in the draft *Internal Systems Review* are not specific and do not include controls over key activities for handling WSF's funds and payments or the specific internal controls needed to help ensure that key control activities are being carried out. For example, the procedures state that bills submitted by WSF's vendors are to be approved by the financial team, but the procedures do not include how the approval is to be documented and how the payment of the invoice is to be recorded in WSF's accounting software. Also, in the section on procedures for sending the OSP scholarship payments data to the contractor for printing checks, there is no mention of controls and procedures to verify the accuracy of the payment amounts and the printed checks. While segregation of duties<sup>8</sup> is mentioned in the *Internal Systems Review*

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<sup>8</sup>The concept of segregation of duties can be defined as the division or segregation of key duties and responsibilities associated with financial operations among different members of the staff to reduce risk of error or fraud. For example, the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related aspects should be performed by different persons. No one individual should control all key aspects of a transaction or event.

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document for processing receipts and for issuing checks to WSF's vendors, these procedures do not clearly outline responsibilities for (1) authorizing transactions, (2) processing and recording them, (3) reviewing the transactions, (4) handling any related access to cash, and (5) how these duties are to be separated. The control achieved through segregation of duties is important for small as well as large organizations. Where the staff is not large enough to segregate all duties, a compensating control, such as supervisory review, can be established. Segregation of duties is among the controls designed to prevent such fraudulent acts as those allegedly committed by a former WSF staff member in processing WSF's private scholarship funds (no OSP funds were involved, according to WSF officials) between October 2006 and January 2007. The manager diverted funds from WSF's Signature Scholarship Program (SSP) bank account and made personal charges to a WSF credit card. A WSF official subsequently identified the fraudulent activity through reviews of bank reconciliations and credit card charges. WSF management told us that it has implemented additional controls to help ensure that access to any accounts or funds is secure and that these controls will be tested as a part of WSF's next financial statement audit.

WSF processed OSP scholarship payments using systems that were not interfaced, resulting in data being manually transferred, a procedure that increases the risk of error. For school years 2004-2005 and 2005-2006, due to limitations in WSF's accounting system, WSF used an Excel spreadsheet to track information about individual OSP scholarship payments. However, the detailed payment and check information in the Excel spreadsheet could not be uploaded or interfaced with the accounting software used by WSF. As a result, only the lump sum totals for batches of payments were recorded in the WSF accounting software, not the individual scholarship check information. This system was used as the basis for WSF's financial reports.

WSF enhanced its scholarship payment process for 2005-2006 through the implementation of a Web-based, online billing system that enabled participating schools to electronically enter the tuition and fee charges and submit invoices for all OSP students attending that school.<sup>9</sup> WSF also created a student database that included key information about each

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<sup>9</sup>Schools entered the tuition and fee charges for each student into WSF's online billing system at the beginning of the school year. Some of the fees commonly included were for uniforms, field trips, before-and-after care, cafeteria services, and transportation.

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student. However, because the online billing system was not integrated with the student database, key information about each OSP student had to be uploaded electronically into the online billing system to enable participating schools to submit invoices.

WSF's overall process for key bookkeeping and accounting functions, such as check printing and bank reconciliation, was not well defined or integrated. Further, these processes were outsourced, requiring monitoring and oversight of contractor's work to ensure against errors. For example, the bank reconciliation process—a key cash management control—was made more difficult by the tracking of individual payments in the Excel spreadsheet or student database, neither of which was integrated with the accounting system. The lump sum recording of payments also made it difficult to track the separate manual entries in its accounting software for voided checks, reissued checks, and other adjustments, because individual OSP scholarship checks were not directly matched with corresponding entries. Therefore, the preparation of bank reconciliations was difficult. In 2007, WSF officials noted errors in recent bank reconciliations. These errors, combined with WSF's detection of fraud allegedly perpetrated by the former WSF employee in its nonfederal program, have prompted WSF to begin a process of redoing all bank reconciliations, starting with 2004. As of the end of our field work, this effort had not been completed and therefore the outcome is unknown.

WSF officials have contracted to purchase a financial management software package designed for nonprofit organizations that they believe will facilitate the recording of the individual scholarship checks. According to WSF, the system should be in place for the 2007-2008 school year. As WSF continues to implement integrated systems and processes, the need for manual data transfers will be reduced.

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### **WSF Did Not Consistently Adhere to Basic Accountability and Internal Control Procedures**

WSF did not consistently adhere to its established OSP scholarship payment procedures and made payments without the required documentation or approvals, and it did not fulfill its oversight role for ensuring that participating schools are financially responsible. Lack of appropriate accountability and internal control increases the risk that program funds will not be used in accordance with program requirements.

On the basis of our examination of supporting documentation for payments for a random sample of 50 students receiving scholarships at 25 schools in school year 2005-2006, we found the following problems with

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scholarship payments made for 46 of the 50 students. Payments for some students had more than one of these problems.

- For 39 of the 50 student files we reviewed, WSF had paid fees based on incomplete fee approval forms from the participating schools, which lacked authorizing signatures from the participating school, dates, or both. Participating schools submit these forms to obtain WSF's approval of fees that are not included in the school's published list of tuition and fees. According to WSF's procedures, these forms must be reviewed and approved by WSF officials before payment can be made. Without having properly approved fee information, WSF is at risk of paying unapproved fees.
- For 9 of the 50 students, we found related student or school files were incomplete. Some of the items that were missing included disbursement and payment detail reports as well as other documents such as school placement letters. Disbursement reports provide a summary of the tuition and fees that have been billed to the student's scholarship account for the year. Payment detail reports list all tuition and fees for each OSP student attending the participating school, and the correctness of the information on these reports is to be certified by officials of the participating schools. Without this information, we could not assess whether the controls were operating as intended.
- In 23 of the 50 student files we reviewed, disbursement reports did not include the WSF student identification number next to the student's name or the student identification or name was incorrect. Although WSF maintains that its student identification numbers are not used as key identifiers, these student numbers are the only numbers that link the disbursement reports and the scholarship checks. Without a consistent student identifier to link students in the program with the actual payments being made, WSF is at risk of losing accountability for specific payments made for individual students in the program.
- We found a scholarship payment that WSF paid for a fee that was not included on the payment detail report and a fee payment for another student that was based on a payment detail report that had not been certified by a school official. Without this certification, WSF officials did not have assurance from the participating school that the payment was made based on correct and complete information.

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Some Payments Are Not in Compliance with the Act, and Others Raise Questions about Compliance

Under the Act, the grantee is to use the funds to provide eligible students with scholarships to pay tuition, fees, and transportation to enable students to attend the D.C. private school of their choice. Neither the Act nor its legislative history defines the terms “tuition,” “transportation,” or “fees.” According to Education officials, the Department left the determination of what fees are to be included in a scholarship payment to WSF. WSF established the policy that any fee for an activity, service, or product that contributes to the academic success of a student is allowable if two key criteria are met. One criterion is that fees paid must be for services offered to all similarly situated students, not just OSP students. The other criterion was that the rates of all fees for OSP students must be the same as rates charged for similarly situated, non-OSP students. WSF commonly uses OSP scholarship funds to pay fees for school uniforms, books, cafeteria services, tutoring, before-and-after care, physical education, and enrichment (music, dance, and art).

During the 2006-2007 school year, WSF offered scholarships up to \$7,500 to students enrolled in schools that do not normally charge students tuition. For school year 2006-2007, WSF offered such scholarships to about 30 students. At these schools, families of non-OSP students typically pay a small monthly fee as a sign of commitment to the school, but tuition and other expenses are supported by private donations to the school. OSP is providing scholarship payments of \$7,500 per year to pay tuition for OSP scholarship children to attend these schools while the families of non-OSP students pay no tuition. Section 307(a)(1) of the Act requires that the grantee ensure that the amount of any tuition or fees that the school customarily charges OSP students not exceed the amount of tuition or fees that the school customarily charges non-OSP students. In reviewing OSP scholarship payments, we found that WSF’s practice of paying for tuition scholarships to schools that do not normally charge students tuition is a violation of the Act because the Act provides that the tuition charged OSP students cannot be more than the tuition charged for similarly situated non-OSP students. The small monthly fee, because it is charged to all students, would be an allowable fee under the OSP. WSF maintains that there is no violation of the Act because students attending these schools tuition-free are supported by scholarship dollars in the same way as those who receive OSP funds.

During school year 2005-2006, WSF was billed for before-and-after school care for 31 of the 50 students whose payments we reviewed. On the basis of the documentation that WSF provided to us for the 25 schools in our sample that offered before-and-after care, in 22 cases we could not determine whether these services included any academic support

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activities. Absent this characteristic, before-and-after care would not meet the requirement that a fee must contribute to a student's academic success.

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## While OSP Students Generally Met the Program's Eligibility Requirements, WSF Had Limited Success Meeting Recruiting Priorities and Did Not Provide Parents Complete Information

WSF had limited success in recruiting students from schools in need of improvement, ensuring private school placement opportunities and quality, and providing parents accurate information on private schools. Students who were offered OSP scholarships generally met the program's income eligibility requirements, and applicants from schools in need of improvement had priority for receiving scholarships, but low numbers of scholarship recipients came from such schools. While a large number of schools were recruited to participate, they varied widely in the numbers of placements they made available and characteristics associated with quality, such as teachers' qualifications, and information WSF provided parents was not always complete and accurate.

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## Grantee Recruited Eligible Students, but Low Numbers Were from Schools in Need of Improvement

Data reported to the grantee generally indicated students who were offered scholarships met the financial eligibility criteria. Despite considerable outreach efforts and priority given to students from schools in need of improvement, they were underrepresented among recipients of scholarship offers relative to their presence in the population of District students, owing to both challenges in recruiting applicants and school openings.

Under the terms of the memorandum of understanding between Education and the District of Columbia regarding the operation of the program, the District, in consultation with Education, agreed to identify a community-based nonprofit organization to conduct activities, including outreach to parents and private schools, prior to the award of the grant in order to promote a successful launch of the program for the 2004-2005 school year. This entity—Fight for Children—met with private school officials, collected preliminary information about these schools, and initiated community outreach activities. After the grant was awarded, WSF assumed responsibility for these efforts and built upon them by engaging in such activities as holding community meetings, running radio advertisements, conducting mail campaigns, and reaching out to minority communities. However, WSF encountered obstacles in recruiting students from schools in need of improvement, and less than a quarter of all students who were offered scholarships by 2006 came from these schools. In fact, 4 percent of students who were offered scholarships the first year

were from schools in need of improvement, while about 11 percent of District students attended regular public and charter schools in need of improvement that year. Table 4 describes some of WSF’s outreach activities, and figure 3 shows examples of some outreach materials used.

**Table 4: Types of Outreach Methods Used to Reach Potentially Eligible Families**

<b>Method</b>	<b>Examples</b>
Paid advertising	<ul style="list-style-type: none"> <li>• Direct mail</li> <li>• Newspapers</li> <li>• Public transportation ads</li> <li>• Movie theater advertisements</li> <li>• Radio</li> </ul>
Neighborhood meetings at a variety of locations	<ul style="list-style-type: none"> <li>• District of Columbia Armory and convention center</li> <li>• Community centers</li> <li>• Churches</li> <li>• Housing developments</li> <li>• Libraries</li> <li>• Public housing</li> <li>• School-sponsored events</li> <li>• Homes</li> </ul>
Direct mail to targeted audiences	<ul style="list-style-type: none"> <li>• Temporary Assistance for Needy Families recipients</li> <li>• Families with students attending District of Columbia public schools designated as in need of improvement</li> <li>• Commercial list of 27,000 low-income families</li> <li>• District of Columbia Public School and charter school mailings</li> </ul>
Posters at a variety of locations	<ul style="list-style-type: none"> <li>• Community centers</li> <li>• Clinics</li> <li>• Churches</li> <li>• Homeless shelters</li> <li>• Government services intake offices</li> <li>• Outreach centers targeting minority populations</li> <li>• Retail outlets (grocery stores, beauty salons)</li> </ul>
Flier distribution at a variety of locations	<ul style="list-style-type: none"> <li>• Schools in need of improvement</li> <li>• Public transportation stops</li> <li>• Targeted neighborhoods</li> <li>• Retail outlets (grocery stores, beauty salons)</li> </ul>
Office accessibility	<ul style="list-style-type: none"> <li>• Evening and weekend hours</li> <li>• Satellite offices</li> <li>• Bilingual interpreters, primarily Spanish</li> <li>• Volunteers</li> <li>• School and application fairs</li> </ul>

Source: GAO summary of WSF information.

Figure 3: Examples of Outreach Materials Grantee Used To Recruit Low-Income Families

**BECAS PARA ASISTIR A UNA ESCUELA PRIVADA EN EL DISTRITO DE COLUMBIA EN EL AÑO ESCOLAR 2005-06**  
TUITION TO ATTEND D.C. PRIVATE SCHOOLS IN 2005-2006

**En el futuro de su hijos está su tranquilidad.**

Elija una escuela privada de enseñanza primaria, media o secundaria para su hijo(a) en el Distrito de Columbia, y siga recibiendo cualquier otro apoyo público federal que su familia reciba.

Presente su solicitud ahora para el año escolar 2005-2006, en una de las reuniones de solicitud o en las oficinas de WSF (1133 calle 15, NW, entre las calles L y M, suite 550). Llame al teléfono 1-888-DC-YOUTH o visite el sitio de internet [dcscholarship.org](http://dcscholarship.org) para obtener más detalles y enterarse de lo que debe traer cuando venga a presentar su solicitud.

Apply now for 2005-2006 at an application meeting or at WSF's offices (1133 15th Street NW, between L and M, Suite 550). Call 1-888-DC-YOUTH or go to [www.dcscholarship.org](http://www.dcscholarship.org) for more details and to find out what you should bring with you to apply.

"*Ahora sé que el camino de convertirse en el futuro de mi hijo(a) está haciendo realidad.*"

Apply on February 22, 4-7 p.m.

**Thurgood Marshall Center**  
1816 12<sup>th</sup> Street, NW

**Opportunity Scholarships**  
of up to \$7,500  
to attend a D.C. private school in 2007-2008  
for public school children going into kindergarten through 7<sup>th</sup> grade and living in D.C.

Join us on Thursday, February 22 to:  
★ apply for the scholarship ★ meet with schools

1-888-DC-YOUTH  
[www.washingtonscholarshipfund.org](http://www.washingtonscholarshipfund.org)

Full Scholarships Available

The Thurgood Marshall Center is located on 12<sup>th</sup> Street between S and T. Take Metro's Green Line to the U Street/Cardozo stop.

**BECAS PARA ASISTIR A UNA ESCUELA PRIVADA EN EL DISTRITO DE COLUMBIA EN EL AÑO ESCOLAR 2005-06**  
TUITION TO ATTEND D.C. PRIVATE SCHOOLS IN 2005-2006

Para información sobre otros programas de asistencia de becas, llame al 1-888-DC-YOUTH.

Venga a las oficinas de Washington Scholarship Fund (WSF), 1133 calle 15, NW, entre las calles L y M, suite 550. De lunes a viernes de 9:00 a.m. a 4:00 p.m.

[dcscholarship.org](http://dcscholarship.org)

Las Becas Opportunity el transporte y otros que participan en el programa. Presente su solicitud en el año escolar 2005-2006.

Opportunity Scholarships pay for tuition, transportation and fees at participating DC private schools. Families are receiving free tuition at all participating schools in 2006-2007; see subject the same in 2007-2008.

**TUITION TO ATTEND D.C. PRIVATE SCHOOLS IN 2005-06**  
BECAS PARA ASISTIR A LAS ESCUELAS PRIVADAS EN D.C. 2005-06

**Your Child's Future. Your Peace of Mind**

Choose a D.C. private school for your elementary, middle or high school child and keep any other federal public assistance if your family receives it.

Apply now for 2005-2006 at an application meeting or at WSF's offices (1133 15th Street NW, between L and M, Suite 550). Call 1-888-DC-YOUTH or go to [www.dcscholarship.org](http://www.dcscholarship.org) for more details and to find out what you should bring with you to apply.

Presente su solicitud ahora para el año escolar 2005-2006, en una de las reuniones de solicitud o en las oficinas de WSF (1133 calle 15, NW, entre las calles L y M, suite 550). Llame al teléfono 1-888-DC-YOUTH o visite el sitio de internet [dcscholarship.org](http://dcscholarship.org) para obtener más detalles y enterarse de lo que debe traer cuando venga a presentar su solicitud.

"*Our scholarship has been a blessing for my family.*"

**TUITION TO ATTEND D.C. PRIVATE SCHOOLS IN 2005-06**  
BECAS PARA ASISTIR A LAS ESCUELAS PRIVADAS EN D.C. 2005-06

Call 1-888-DC-YOUTH (1-888-374-8884) now for application meeting dates and times!

De cómo la WSF's offices to apply Washington Scholarship Fund 1133 15th Street, NW, Suite 550 Washington, DC 20005 [dcscholarship.org](http://dcscholarship.org)

Washington Scholarship Fund 1133 15th Street, NW, Suite 550 Washington, DC 20005 phone: 202-293-7880 fax: 202-293-7883 [www.washingtonscholarshipfund.org](http://www.washingtonscholarshipfund.org)

**Come to Pamela's**

October 2, 2004 From 1:00 p.m. to 3:00 p.m.

**To get what you need to send your child to a D.C. private school!**

Come to an information and application meeting to learn how to get a D.C. K-12 Scholarship



**APPLY NOW!**

To be eligible for the D.C. K-12 Scholarship program, your child MUST:

- Live in D.C.
- Be going into K-12<sup>th</sup> grade in September 2005 (next school year)
- Have a family income of no more than 185% of poverty level. Please refer to the following table:

Family Size	Maximum Income
2	\$ 23,107
3	\$ 28,990
4	\$ 34,873
5	\$ 40,756
6	\$ 46,639
7	\$ 52,522
8	\$ 58,405



The D.C. K-12 Scholarship Program is administered by the Washington Scholarship Fund (WSF) WSF Partner Organizations: Capital Partners for Education • DC Parents for School Choice • Fight For Children • The Parent Group • Greater Washington Urban League

Source: Washington Scholarship Fund.

Various factors hindered WSF's efforts to recruit more students from schools in need of improvement for the first year, according to WSF officials. Officials said that many families were skeptical about the

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program—stating that it was “too good to be true” or that private schools would be reluctant to accept their children—and had heard misinformation, such as that receiving a scholarship could reduce social service benefits. In addition, WSF officials said they only had a short time after receiving the grant to recruit a large number of potentially eligible families and help them through the complicated application and school admissions process before they had to conduct the first lottery.

By the second school year, 2005-2006, the percentage of students from schools in need of improvement who were offered scholarships increased to 38 percent. According to WSF officials, several factors contributed to this growth: More families knew about the program and were less skeptical than they had been in the beginning, and WSF had more time to recruit eligible families. In addition, the percentage of children who attended District public and charter schools designated as in need of improvement increased, therefore enlarging the pool of potentially eligible applicants from these schools.

WSF decided to reduce the extent of its outreach efforts for the third year, 2006-2007, because of the limited availability of new scholarships for students.<sup>10</sup> Most of the grant funds were needed to support students awarded scholarships in years one and two. According to WSF officials, conducting extensive outreach efforts when only a limited number of scholarships were available would have unrealistically raised some families’ hopes of receiving scholarships. WSF cut back on media advertising, but mailed flyers to families with children in schools in need of improvement and held community meetings and events, such as school fairs.<sup>11</sup> About 24 percent of students who were offered new scholarships for the third year were from schools in need of improvement. (See fig. 4.)

Lotteries for scholarship awards incorporated a mechanism to afford required priority to students from schools in need of improvement, but an applicant’s probability of selection was also influenced by the number of private school openings offered at his or her grade level. This is significant

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<sup>10</sup>In addition, WSF only allowed students entering grades kindergarten through grade 5 to apply for scholarships for the 2006-2007 school year because of the shortage of high school openings.

<sup>11</sup>Each year, WSF has included a brochure on OSP with other information on school choice that the District of Columbia Public Schools or State Education Office has mailed to families with children in District public schools.

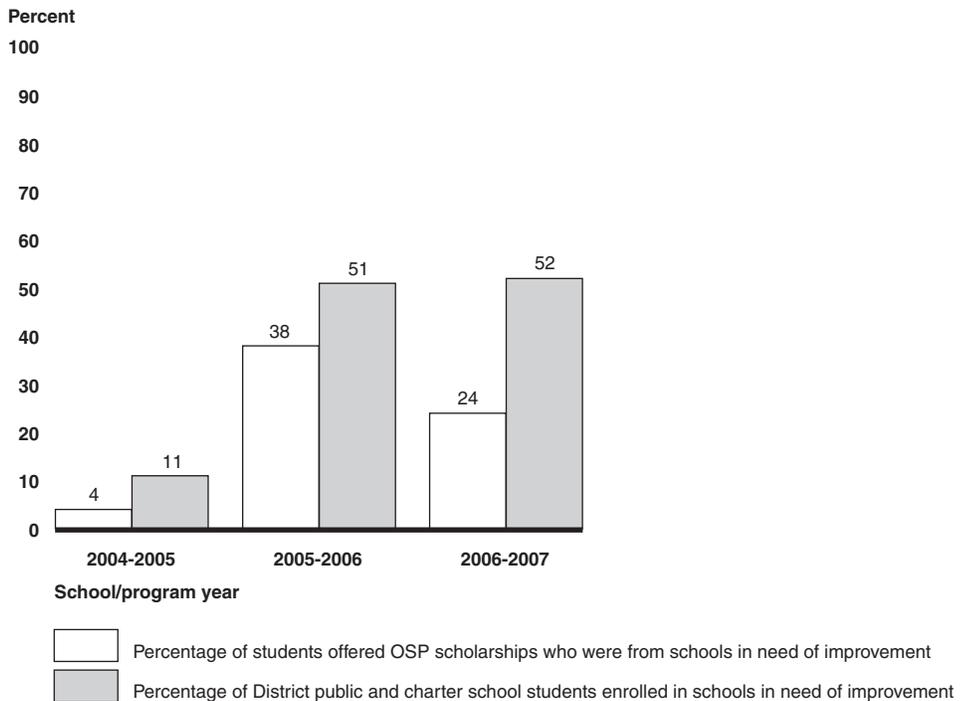
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because private school openings were most plentiful at the elementary level, while improvement designations had been more common among middle and secondary schools. In order to give priority to students attending schools in need of improvement, the evaluator assigned highest probabilities to those students that attended District schools with this designation, lower priority to students from public schools without this designation, and, for the first year of operation, lowest priority to students from private schools. Because the lottery also awarded scholarship offers in proportion to the number of possible openings reported by participating schools at particular grade levels, students in kindergarten through grade 8 had considerably better chances of receiving scholarship offers than high school students because many more openings were available for them.<sup>12</sup> While District middle and secondary schools were more likely to be in improvement status than elementary schools, private school openings at the secondary level were so scarce that WSF restricted application in later years of the program to students in the elementary grades.

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<sup>12</sup>During the third year, WSF only allowed students entering grades kindergarten through 5 to apply because there were few placements available at the high school level and students in cohorts 1 and 2 were matriculating into these grades. During the fourth year, WSF limited applications to students in grades kindergarten through grade 7.

**Figure 4: Percentages of Students Offered OSP Scholarships Who Attended Schools Designated as in Need of Improvement Were Consistently Below the Percentages of Students in District of Columbia Schools Who Attended Such Schools**



Source: GAO analysis of data from WSF and the District of Columbia Public Schools.

Note: The District of Columbia issued its list of schools in need of improvement each August for the prior school year. Because WSF and the evaluation contractor had to conduct scholarship lotteries in the spring before the District issued the lists, they had to use prior year designations. For example, they conducted the scholarship lotteries for the 2004-2005 school year in spring 2004 but had to use the list of schools designated as in need of improvement in 2002-2003 because the District did not issue the 2003-2004 school list before the end of the school year. Accordingly, in the figure above, both bars in each year represent students from schools that were designated as in need of improvement in the previous August.

Of the 2,845 students who were offered scholarships during the first 3 years of the program, most were African-American, but some were Hispanic, Asian, and white students,<sup>13</sup> and almost all met the income

<sup>13</sup>We cannot report specific demographic characteristics of students offered scholarships because the data we received from both WSF and Westat contained large amounts of missing data.

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eligibility requirements.<sup>14</sup> About 77 percent had attended District public schools, with the remainder split among students who had attended private schools, students who had not previously attended school, and students from public and private schools outside the District. Most students—about 80 percent—were enrolled in elementary and middle schools,<sup>15</sup> while about 17 percent were enrolled in grades 9-12.

Although most students used their scholarships when they received them, many did not or did not continue to use them after the first year, potentially freeing up scholarship money for some additional scholarship offers, but students who had been offered scholarships could decide to use the scholarships at any time during the program's operation by enrolling or re-enrolling in a participating private school. About 75 percent of all students who received scholarships during the first 2 years used them at some point during the time they were available to them. Among students offered scholarships in the first year the program operated (cohort 1), 68 percent initially used their scholarship, and of those who used them initially, 69 percent used their scholarships all 3 years that the scholarships were available to them and for which data had been collected. Among students who were first offered scholarships in the program's second year of operation (cohort 2), about 71 percent initially used their scholarship, and of those who used them initially, 78 percent continued to use their scholarships for the next 2 school years. One hundred eleven students in cohort 1 and 5 students in cohort 2 did not use their scholarships when first available, but did so eventually.

WSF had little data that described reasons students did not use their scholarships when they first received them or continue to use them for subsequent school years, but anecdotal information was available. The reasons reported by some parents related to family issues, such as personal problems, moving, and special education needs, while others

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<sup>14</sup>During the first year of the program, WSF reported that an audit had found a small number of students erroneously received scholarship offers whose household incomes exceeded 185 percent of the poverty level at the time of application and who were, therefore, not financially eligible for the program. WSF indicated it subsequently used funds from its private scholarship program to allow these students to continue private school participation.

<sup>15</sup>With the approval of Education's General Counsel, WSF awarded some scholarships to children whose parents planned to place them in a participating preschool or prekindergarten as long as the children satisfied the District's age requirements to enter kindergarten and the preschool was best fitted to meet their needs.

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were more logistical, such as lack of transportation, before- or after-care, or a convenient school. Parents also chose to enroll their children in District charter schools, neighborhood schools, or other private schools that did not participate in the program. According to the *Parent and Student Voices May 2007* report,<sup>16</sup> some parents also reported several factors that hindered their children's ability to use the scholarship, such as losing their scholarship because the family's income exceeded the previous 200-percent poverty threshold for renewing scholarships,<sup>17</sup> a dearth of openings at the high school level, and receipt of a scholarship for only one child in a sibling group.

Scholarship usage rates also varied according to the type of school the student previously attended and students' needs for special educational services. The program evaluation found that fewer students from schools in need of improvement and from high schools in general used their scholarships than other students. In addition, fewer students that reported having a learning or physical disability used scholarships than other students.

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<sup>16</sup>Stephen Q. Cornman, Thomas Stewart, and Patrick Wolf, *The Evolution of School Choice Consumers: Parent and Student Voices on the Second Year of the D.C. Opportunity Scholarship Program* (Georgetown Public Policy Institute, May 2007).

<sup>17</sup>Under the rules of the program, the household income of applicants could not exceed 185 percent of the poverty level at the time of application, but participants could continue in the program as long as their household income did not exceed 200 percent. In December 2006, Congress passed legislation that raised the limit on household income for students who had enrolled during the program's first 2 years from 200 percent of the federal poverty level to 300 percent of the federal poverty level. This allowed K-12 students who would have "earned out" of the program to maintain their eligibility.

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**Participating Schools Ranged Widely in the Number of Openings Available to Scholarship Recipients, and Few Openings Were Available at the Secondary Level**

The 70 District of Columbia private schools that have participated in the program varied in terms of their characteristics and the number of OSP students they enrolled.<sup>18</sup> Students who received scholarships ranged from none to 67 percent of the enrollment of participating private schools. For example, in 2006-2007, more than half the scholarship students were concentrated in 19 schools. Sixteen schools had accepted between 0 and 5 scholarship students. Four schools accepted only students who they had previously accepted.

Some students who received scholarships had limited choices, particularly students in the upper grades and those who wanted to attend a secular school. For example, according to WSF data for school year 2005-2006, only about 70 openings were available at the high school level (compared to about 650 for students in kindergarten through grade 5 and about 200 for students in grades 6-8). The majority of scholarship students attending high schools went to one religious school, and WSF raised private funding to pay for the tuition above the scholarship cap. In addition, students who desired a secular school had a limited number to choose from, since most of the participating private schools were Catholic or Protestant, and these schools offered most of the openings. The remaining schools included some that were Afro-centric or Muslim, or offered only early childhood education.

About 88 percent of all scholarship users attended schools with tuitions below the \$7,500 cap. Although tuition rates varied, only 3 percent attended the most expensive schools that charged \$20,000 or more, perhaps because these schools or private donations could not make up the difference between the tuition and the \$7,500 cap or because these schools had financial aid programs of their own on which they could draw that were not subject to OSP financial and residential eligibility requirements. In general, schools offering high school placements had higher tuitions than other schools. (See table 5.)

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<sup>18</sup>According to the National Center for Education Statistics, the District of Columbia had 87 private schools as of the 2003-2004 school year; 70 of these schools have participated in OSP, but not all schools have participated in all years. The schools that are not participating include some that are highly specialized, such as a ballet school, and some that serve only students with severe disabilities.

**Table 5: Summary of Tuition Rates by Grade Level for Participating Private Schools, School Year 2006-07**

Tuition	Elementary		Elementary and middle		Elementary through high school	
	Number of schools	Number of OSP students	Number of schools	Number of OSP students	Number of schools	Number of OSP students
\$2,100-5,000	4	76	18	999	1	67
\$5,001-7,500	4	95	7	190	2	97
\$7,501-10,000			2	15		
\$10,001-15,000			1	5		
\$15,001-20,000	2	4	1	25		
\$20,000 +	1	1	1	3	3	38
<b>Total</b>	<b>11</b>	<b>176</b>	<b>30</b>	<b>1,237</b>	<b>6</b>	<b>202</b>

Middle or junior high		Middle and high school or high school only		All schools	
Number of schools	Number of OSP students	Number of schools	Number of OSP students	Number of schools	Number of OSP students
				23	1,142
				13	382
1	15	1	72	4	102
1	12	2	14	4	31
1	3	4	5	8	37
		1	2	6	44
<b>3</b>	<b>30</b>	<b>8</b>	<b>93</b>	<b>48</b>	<b>1,738</b>

Source: GAO analysis of WSF data.

Note: In addition, three students attended preschools with tuition between \$7,501 and \$10,000, and two students attended a preschool with tuition between \$5,001 and \$7,500.

While the Act requires WSF, as the grantee, to ensure that participating schools are financially responsible and are using the received funds effectively, WSF did not fulfill its oversight role of ensuring that participating schools are financially stable. WSF designed letters of agreement that detailed the requirements for participating schools, including the need to show evidence of financial stability on an annual basis. However, for all 25 schools attended by the 50 students in our random sample, we did not find certain documents that should have been submitted by the schools showing financial stability or that a financial audit had been completed.

Proof of financial stability is critical for providing assurance that a participating school can maintain operations as an ongoing entity and that OSP students can continue enrollment in those schools. During school year 2006-2007, one school that enrolled 25 scholarship users announced closure due to bankruptcy. Two schools that were members of the Center City Consortium, a group of Catholic schools run by the Catholic Archdiocese of Washington, closed in school year 2007-2008 due to financial problems, but the 134 scholarship users affected by the closures were offered placements in other consortium schools. Presently, the archdiocese is exploring the possibility of converting 8 of the 12 schools in the consortium to charter schools by school year 2008-2009.

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The extent to which private schools reported characteristics associated with high-quality educational programs varied. We found that, as reported in the *School Directory, D.C. Scholarship Program: 2004-05*,<sup>19</sup> at least 3 of 52 schools that participated that year indicated that at least half of their teachers did not have at least a bachelor's degree, and 6 schools indicated that about 10 to 20 percent of their teachers lacked at least a bachelor's degree. Further, many of the schools were not accredited, and there is no evidence that they submitted evidence of educational soundness acceptable to the Board.

The MOU and the Act limit participation to private schools operating lawfully in the District. Yet, neither Education, the District of Columbia, nor WSF ensure that all participating private schools meet basic requirements for operating legally in the District of Columbia, and some schools have not met these requirements. WSF relies on school officials to self-certify that they are operating lawfully, and the District had not reviewed any schools to determine whether they had met the District's requirements. We selected a non-probability sample of 18 schools using various criteria, including whether or not schools had registered with the District's Department of Consumer and Regulatory Affairs and whether or not schools were accredited by an agency recognized by the District and asked the District to supply copies of their occupancy certificates to us. District officials provided documentation indicating that 3 of 18 schools we selected for review for certificates of occupancy lacked them; 6 had permits that did not specify use as a private school, child development center, or before and after school care center; and 7 of the 18 appeared to have occupancy permits that designated use as child development centers with before and after school care for school-age children, but did not reflect the operation of a private school. One school where OSP students constituted over 60 percent of enrollment applied for an occupancy permit for operating as a private school in March 2007 after it had participated in OSP for 3 years. Because District officials could not find any reports on file, they concluded several schools may not have submitted required annual reports of operation providing basic information on their curriculum, teachers' education, accreditation, and school facilities. These officials also reported that the District government had not previously played an active role in overseeing the operations of WSF. Figure 5 shows

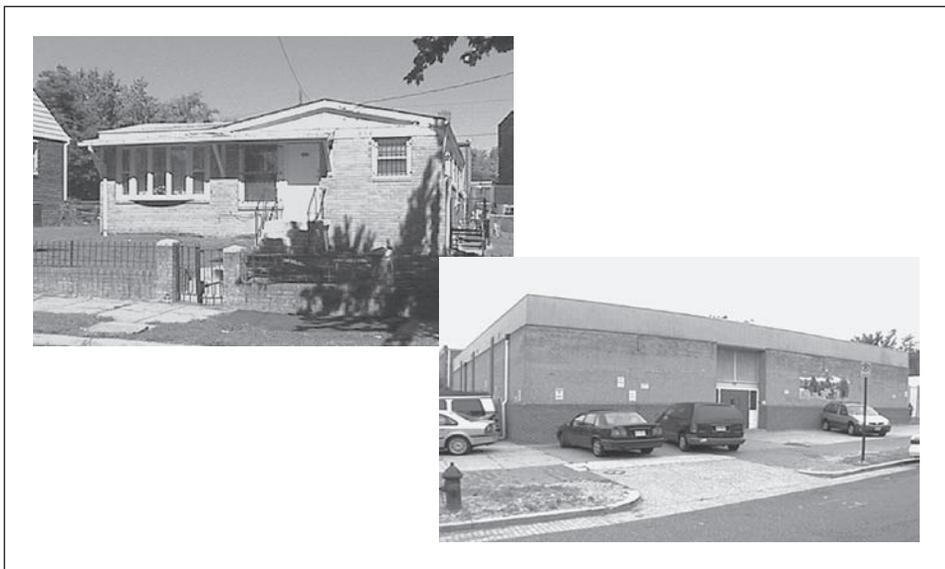
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<sup>19</sup>We used the *School Directory D.C. K-12 Scholarship Program: 2004-2005 School Year*, (Washington, D.C.: Washington Scholarship Fund), for our analysis because the directories for the 2006-2007 and 2007-2008 school years appear to inaccurately report data on teachers' degrees for many schools.

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examples of schools participating in OSP that District officials reported did not have certificates of occupancy specifying use as an educational facility on file with the Department of Consumer and Regulatory Affairs.

**Figure 5: Examples of Schools That Operated without a Certificate of Occupancy Specifying Use as a Private Day School**



Source: District of Columbia government.

According to WSF officials, they had conducted school visits at 42 of the 58 schools with OSP students. However, we found only one written report documenting a visit to one of these schools. Selection of schools to visit was based partly on certain triggers, such as parent complaints. WSF officials told us that they had several versions of a school review form used to document visits and provided us a copy of the form used at the beginning of the 2005-2006 school year. However, they informed us that the use of this form had been discontinued shortly afterward. Site visits such as WSF's school visits are an important control, especially given that schools self-certify that they meet all regulations established for private schools under District law. Self-certification without review to verify that the certifications are factual increases the risk that federal funds intended to allow children from low-income families to attend private schools will result in some students attending schools that are not in compliance with District law.

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## Information WSF Provided to Help Parents Select Private Schools Was Incomplete and Contained Inaccuracies

The Act required the grantee to provide parents with information that would help them make informed decisions about selecting a school for their child. The MOU between Education and the District of Columbia provided that the grantee was to provide certain specific information about the school to parents, including the qualifications of the school's teachers, the achievement of its students, and its safety and environment. The provision of information is important since many students who were offered OSP scholarships had little experience with private schools. Parents also said they would like to have information that would help them evaluate private schools.<sup>20</sup>

Although WSF compiled an annual directory to help parents during the selection process, it did not collect or omitted or incorrectly reported some information that would have helped parents evaluate the quality of participating schools.<sup>21</sup> WSF did not provide information about the achievement of each school's students in order to help parents select appropriate schools for their children. However, it did require schools to certify that they had given parents of enrolled OSP students information on their children's academic progress and overall school safety.<sup>22</sup>

WSF also requested some information from the schools that it did not provide that could have helped parents during their decision-making process, most notably information on a school's accreditation status. In addition, some information WSF did provide to parents may have been misleading. Some schools reported to WSF that they had such facilities as a library or gymnasium, although the information they reported to the District indicated no such facilities.

Finally, WSF incorrectly reported information on some schools that could have significantly affected parents' choice of schools, primarily the percentage of teachers who had at least a bachelor's degree and tuition

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<sup>20</sup>Stephen Q. Cornman, Thomas Stewart and Patrick Wolf, *The Evolution of School Choice Consumers: Parent and Student Voices on the Second Year of the D.C. Opportunity Scholarship Program* (Georgetown Public Policy Institute: May 2007).

<sup>21</sup>Each annual directory described the general characteristics of participating private schools, such as their enrollment, enrichment programs, and access to public transportation.

<sup>22</sup>The Act required that schools provide parents with information on enrolled students' academic achievement, as measured by a comparison with the aggregate academic achievement of other students at the student's school in the same grade or level on an annual basis.

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rates. For example, the 2007-2008 school directory reported that less than half of teachers in five schools and between 51 and 75 percent of teachers in another five schools had at least a bachelor's degree, although the 2004-2005 directory reported that 100 percent of teachers in these schools had at least a bachelor's degree. In addition, the school directory for 2007-2008 reported that the tuition for at least three private schools was between \$10,000 and \$15,000. However, in verifying tuitions listed in the directory by comparing them to tuitions cited in other sources, we learned these schools do not charge non-OSP students tuition and typically charge only a modest fee, such as \$25 per month.<sup>23-24</sup> The tuitions listed for these schools may have motivated parents to obtain scholarships in the belief that they could not otherwise afford them.

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## Evaluation Contractor Adopted a Strong Methodology, but Program Implementation and Other Factors Limited the Usefulness and Generalizability of Findings

The evaluation contractor adopted an evaluation design that used random assignment to determine which applicants were offered scholarships and which were not, but program implementation decisions and other factors limited the usefulness and generalizability of the evaluation's findings regarding the effects of scholarship offers on the achievement of low-income, District public school students. The contractor adopted a random assignment evaluation design that enabled comparisons between students from District public schools who were offered scholarships (the treatment group) and those that were not (the control group) and was designed to measure the effect of scholarship *offers* on applicants who had attended public schools. The contractor used statistical techniques to estimate the effects of using such a scholarship. The methodology adopted was a strong experimental methodology that could have produced an evaluation that reflected statutory requirements.

Many factors have limited the evaluator's ability to make the achievement comparisons described in the statute and have complicated interpretation of the evaluation's findings or their usefulness and generalizability. For example, changes in the District's achievement testing program and the

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<sup>23</sup>These schools were specifically designed to help low-income children and typically enlist financial contributions from institutional and individual donors in order to operate. Other than a modest fee, students are not required to pay any tuition or other costs. These schools may provide academic support, tutoring, extended school days, Saturday classes or enrichment activities, summer programs, uniforms, and free meals.

<sup>24</sup>As noted earlier in the report, we found that WSF's use of OSP funds to pay tuition for students attending schools that do not normally charge students tuition is not in accordance with the Act.

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scarcity of placements offered by participating high schools limited the evaluators' ability to make comparisons that were of interest to Congress between students offered scholarships and their peers in District schools, including comparisons with regard to graduation rates, dropout rates, and college placement. In addition, although the Act directed the evaluator to determine the effects of the program on District regular public schools, the opportunities for choice within the public school sector grew over the same time frame, making it very difficult, if not impossible, to disentangle the effects of this program on regular public schools from the effects of charter schools, special schools, and magnet and special programs that serve far more students. Along with changes in the District's testing program, limited number of scholarship placements at the high school level, and simultaneous growth of other choice options, other factors may have limited the evaluator's ability to make requested comparisons and to detect statistically significant differences and generalizable results. These factors include the inability to include some scholarship recipients in the evaluation, crossover between treatment and control groups, concentration of scholarship students in a subset of schools, and the combination of academic and social supports with scholarship offers. Given these differences, some comparisons relied on limited data.

*Changes in the District's testing program.* Changes in the District's testing program made it impractical for the contractor to perform some comparisons that Congress had requested, greatly increased the cost of testing, and will likely continue to decrease the quantity and sufficiency of the follow-up achievement test data. At Education's urging, the District changed its standardized achievement testing program in spring 2006 from a norm-referenced test to a criterion-referenced test to better comply with the requirements of the No Child Left Behind Act, but this had major effects on the evaluation. The norm-referenced test, like all norm-referenced tests, had compared students' knowledge with respect to the knowledge of other students and sorted and ranked students according to how much they know in comparison to other students. Because students are ranked against each other, and normalized on a bell curve, norm-referenced tests are constructed so that scores at different grade levels are vertically equivalent and scores of children at various grade levels can be combined to draw comparisons. For example, a second and an eleventh grader who received a percentile score of 75 would have equivalent scores because both surpassed the scores of 75 percent of their grade peers. In contrast, the new criterion-referenced tests, like all tests of this type, measure whether students have mastered certain skills and concepts and/or what they have learned in certain grades or classes. Scores on

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criterion referenced tests do not yield equivalent scores that can be readily combined to draw comparisons across grade levels.

Although the Act directed the evaluator to compare the achievement of students offered scholarships with students of the same grade in public schools and the achievement of scholarship users with students of the same grade in public schools, the evaluation contractor could not reasonably or cost-effectively make these comparisons. The District's new testing program meant a common test that yielded comparable scores for all grades, from the year eligible applicants entered the program through the duration of the program, was no longer available, and administering two testing programs to all students in the District would not be economically or educationally feasible.

In addition, the change in the District's testing program made it necessary for the evaluation contractor to expand the number of students it planned on testing from only those in the treatment group to also include those in the control group in order to make comparisons between these groups because students in the control group would no longer be participating in the norm-referenced testing as part of their public school experience. According to Education officials, this increased the cost of testing and outreach efforts associated with the testing to a total of \$800,000 to \$1 million per year.

The change in tests will also make it difficult to make certain other potentially useful achievement comparisons, particularly with respect to students who do not use their scholarships and students in the control group. Although threats to withhold scholarship funds have been generally effective in securing the participation of scholarship users in testing sessions, no punitive measures are linked to a failure to participate for the other groups. The rewards offered—cash gifts, free tax preparation, and an opportunity to enter a lottery to receive a second chance for a scholarship—have not been sufficient to motivate many nonusers to attend Saturday testing sessions or to engage in appropriate test-taking behavior such as completing subtests and remaining for the duration of the test. Missing test data, as well as the number of students who fail to participate in testing, will likely increase over time, reducing the comparability of the treatment and control group. Although statistical techniques, such as weighting and imputation, can be used to adjust for missing scores, these techniques cannot guarantee findings would not be biased when the unweighted response rate—that is, the number of students for whom scores are available—falls to very low levels. (See table 6.)

**Table 6: Unweighted Percentage of Students with Missing Achievement Test Scores at Baseline and after 1 Year of Program Participation**

Rates in percent

	Reading		Math		Both reading and math	
	Treatment	Control	Treatment	Control	Treatment	Control
<b>Missing achievement scores at baseline</b>						
Cohort 1	14.4	23.3	13.0	23.8	13.0	23.3
Cohort 2	25.1	31.0	13.6	22.7	12.8	22.4
<b>Missing achievement scores after 1 year of program participation</b>						
Cohort 1	21.7	42.0	21.7	42.0	21.7	42.0
Cohort 2	23.6	35.2	20.8	30.4	20.3	29.5

Source: GAO analysis of Westat data.

*Scarcity of high school placements.* The high schools participating in the program offered very few placements, thus limiting the number of high school students and graduates in the evaluation and hampering the ability of the evaluator to make statistically meaningful comparisons of dropout, graduation, and college admission rates of scholarship recipients and nonrecipients. (See table 7.) For example, according to data provided by WSF, the program graduated only 7 students from high school in its first 2 years of operation, too small a number to make sound comparisons. In addition, the low numbers of secondary openings could indirectly exacerbate attrition from the evaluation if, as scholarship users advance through the grade levels, they find placements in higher grades are not available and become less motivated to participate in data collection necessary for the evaluation.

**Table 7: Number of Total Private School Placements for OSP Students**

Year	Kindergarten	Grades 1-5	Grades 6-8	Grades 9-12	Total
2004-2005	296	977	397	68	1,738
2005-2006	169	474	192	72	907

Source: GAO analysis of Washington Scholarship Fund data.

*Simultaneous Growth of Other Choice Options.* The Act directs the evaluator to determine the effects of the program on District public schools, but the opportunities for choice within the public school sector, such as charter schools and magnet programs, are far more numerous than those offered by OSP and have grown over the same time period, making the determination of OSP's independent effect on public schools, if any,

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very difficult, if not impossible, to assess. The evaluation design was based largely on an assumption that the award of an opportunity scholarship would affect student achievement and public schools by expanding school choice to include higher performing schools. This assumption, however, does not account for the large number of public charter schools, magnet schools, and other specialized programs available through the District of Columbia as well as scholarships offered by individual private schools or other private organizations. Because these opportunities are far more numerous than those offered by OSP and expanded in a similar time frame, it would be difficult to attribute changes in the behavior of traditional schools uniquely to OSP. Nor were participating private schools necessarily limited to those that might be higher performing. Moreover, the large portion of some schools' enrollment composed of OSP students suggests that, in some instances, program effects, if any, may be more profound for the participating schools that the scholarship users attend than for the public schools from which the students departed.

*Inability to include some scholarship recipients in the evaluation.* In the first year of the program, Education and WSF decided to process applications in May and hold the placement lottery in August. At that time, however, the program was undersubscribed at the kindergarten through grade 5 level; that is, the number of eligible applicants from public schools who attended kindergarten through grade 5 was less than the number of private school openings available. Consequently, Education and WSF gave scholarships to approximately all 800 eligible public school applicants in these grades, thus eliminating them from the evaluation. In addition, only 55 eligible students from schools in need of improvement at the middle and high school levels applied that year, and Education and WSF decided to offer these students scholarships on a non-random basis, thereby eliminating these 55 students from the evaluation. Education and WSF further reduced the number of students in the cohort 1 evaluation pool by awarding scholarships to about 200 students who were already attending private schools. Although the Act did not specifically prohibit scholarship offers to students in private schools, the evaluation was designed to make comparisons among students who had attended only District public schools.<sup>25</sup> Therefore, the contractor excluded them from the evaluation so as not to reduce the usefulness of the evaluation findings. As a result of

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<sup>25</sup> Education and WSF considered eligible students who would be old enough to attend kindergarten when scholarships were available as public school students. They did not receive any additional priority in the placement lotteries, regardless of the designation of the public school they would have normally attended.

these decisions, of the 2,454 students who were offered scholarships in the first 2 years of the program, only 1,387—less than 60 percent—could be included in the evaluation. (See table 8.)

**Table 8: Eligible Applicants Offered and Not Offered Scholarships and Numbers Included in and Excluded from the Evaluation**

Cohort	Eligible applicants			Number included in evaluation			Number excluded from evaluation		
	Offered scholarship	Not offered scholarship	Total	Offered scholarship (treatment)	Not offered scholarship (control)	Total	Offered scholarship	Not offered scholarship	Total
1	1,366	482	<b>1,848</b>	299	193	<b>492</b>	1,067	289	<b>1,356</b>
2 <sup>a</sup>	1,088	728	<b>1,816</b>	1,088	728	<b>1,816</b>	0	0	<b>0</b>
<b>Total</b>	<b>2,454</b>	<b>1,210</b>	<b>3,664</b>	<b>1,387</b>	<b>921</b>	<b>2,308</b>	<b>1,067</b>	<b>289</b>	<b>1,356</b>

Source: GAO analysis of Westat data.

<sup>a</sup>Numbers for cohort 2 exclude eligible private school students because the evaluation contractor assigned them a zero percent probability of receiving a scholarship offer.

Because of the limited size of the treatment and control groups, the evaluation contractor combined the cohort 1 and cohort 2 treatment and control groups to make comparisons after year one. Future evaluations will compare outcomes for students in these cohorts after they have participated in the program for 2 and for 3 years.

*Crossover.* Crossover between treatment and control groups can reduce the effectiveness of randomization and can make comparisons between treatment and control groups difficult to interpret and generalize. While scholarship offers made to applicants in the treatment group were not withdrawn even if they failed to find a private school placement, applicants assigned to the control group sometimes found other means to attend private school. In fact, 15 percent of students in the control group who provided math scores were enrolled in private schools. The evaluation contractor used statistical adjustments to bound its estimates of treatment effects for both control group students who attended private schools and those who could not or did not use their scholarships. However, the contractor did not consider potential selection effects as a result of the inability of students to find an acceptable placement as opposed to declining the use of a scholarship for some other reason. While some students in the treatment group did not use their scholarships or did not do so consistently and some students in the treatment group who wanted to use their scholarships could not because no school, or no school of their choice had openings or would accept them, the number

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who did not use scholarships specifically because they were unable to find acceptable placements is unknown.

*Concentration of scholarship students in a subset of schools.* Because private schools—which differ greatly in motivation, capacity, and ability to accept OSP students—determine the number of OSP students to accept, large numbers of scholarship users have been clustered within a small subset of private schools. Additionally, OSP students constituted 60 percent or more of total reported enrollment in three participating schools in school year 2006-2007. The evaluation contractor did consider the potential influence of clustering of students within families and in baseline schools prior to OSP participation on variance estimates, which are used in determining the effects of scholarship offers and scholarship use. However, the evaluation does not discuss the potential impact of clustering large percentages of OSP students within relatively few schools. Such clustering of evaluation participants within a small number of schools has the potential to confound program and school-level effects and may distort differences between the comparison groups unless appropriate statistical methodologies are employed to disentangle these effects when analyzing the effect of receiving a treatment.

*Combining scholarship offers with other supports.* In addition to offering scholarships, the program provides scholarship students with additional individual supports, which may include case management and parent empowerment services from the grantee, summer school, tutoring, remedial classes, before-and-after school care, and mentoring. Throughout their participation in the program, OSP students receive different types and combinations of these services that were not readily available to students in the control group, bringing into question the comparability of students in the treatment and control groups and raising problems in generalizing the study's findings to circumstances in which a scholarship is the only treatment offered.

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### Some Required Comparisons Relied on Limited Data

The Act required the contractor to compare the safety of schools attended by participants in the program and the schools attended by students who do not participate in the program and to evaluate the success of the program in expanding choice options for parents. In its evaluation of effects after year one, the contractor relied exclusively on self-reported data to compare the safety of schools attended by the two groups, using survey responses to compare perceptions of school safety among parents of students offered scholarships and students offered scholarships with the perceptions of those who were not and their parents. While

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perceptions may be a valid measure, they do not necessarily reflect the safety risks students face at a given school, and parent and student perceptions sometimes diverged. While not specifically required by the Act, the contractor also used surveys to compare school satisfaction of (1) parents of students offered scholarships and (2) students offered scholarships, with (3) school satisfaction of parents of students not offered scholarships and (4) students not offered scholarships. In the evaluation report, the contractor cast satisfaction as “an indicator of the success of the program in expanding options for parents.”

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## Conclusions

The scholarship program administered by WSF has provided low-income families in the District an additional option to enroll their children in private schools. However, to maintain a program capable of using public funds for their intended purpose—that of providing increased opportunities to low-income parents to send their children, particularly those attending schools designated as in need of improvement, to private schools—the agency or organization with responsibility for operating a school choice program such as OSP needs a strong financial accountability infrastructure that incorporates a system of internal control.

During the period of our review, through year three of the program, WSF struggled to build an accountability infrastructure that could assure Congress, families of participating students, and the public that its funds were used effectively and in compliance with laws and regulations. Strong accountability and internal controls over a scholarship program, such as OSP, are critical for ensuring that funds are used for their intended purposes, and to maintain fiscal viability and credibility. Overall financial management policies and procedures and the underlying systems need to provide assurance that federal funds are being used for the purposes intended and that funds are safeguarded against loss from error, abuse, and fraud.

Without complete and accurate information about schools’ performance and other quality indicators, parents cannot make well-informed choices among schools for their child. The grantee did not provide parents information about the achievement levels of all students in participating private schools and other indicators of school quality and, for some schools, provided inaccurate information about teacher qualifications and tuition levels. As a result, parents might have used opportunity scholarships to place their children in private schools that were less successful in raising achievement levels than the public schools their

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children previously attended. In other cases, parents might have rejected some private schools because they were given inaccurate information about the schools or, in the case of the few schools that do not customarily charge tuition, applied for a scholarship in the belief that their children needed scholarships to attend these schools.

In the absence of an accountability mechanism to ensure that participating schools are operating lawfully in the District, students were placed at risk of attending facilities that did not meet basic health and safety requirements. Because OSP is a federal program that had the support of the District of Columbia's government, parents may have incorrectly assumed that Education and the city were overseeing the program and making sure participating schools met such standards. As a consequence, parents may have been less inclined to investigate the status of these schools.

Finally, implementation of educational evaluations involving random assignment often requires substantial oversight and structure. Without such oversight and structure, the ability to draw valid conclusions about the program to improve educational policy can be compromised by the zeal to ensure program participants' success or to maximize access to a treatment that program operators and applicants may believe is beneficial even in the absence of empirical evidence. Indeed, throughout the short history of OSP, decisions made to advance program goals, such as maximizing the number of scholarships awarded in the initial year and providing a wide range of academic and social supports to scholarship users, have undermined the goals of the evaluation to produce meaningful findings and the ability of Congress to use these findings for decisions about other programs.

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## Recommendations for Executive Action

Given the importance of using funds appropriately to further program objectives and help ensure that schools are safe and provide sound educational experiences, parents are given accurate information about schools their children may attend, and program oversight is sufficient, we are making the following recommendations. Specifically, we recommend that the Secretary of Education direct WSF, the grantee, to

- establish and implement detailed policies and procedures to improve financial controls over OSP grant funds, including specific requirements for the process of approving scholarship payments and documentation of the process;

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- establish compensating controls, such as supervisory review, to reduce the risk of fraud in situations where segregation of duties is not possible due to the size limitations of OSP's staff so that no one employee can authorize, process, review, and have access to the funds relating to OSP;
  - continue its efforts to implement an integrated financial management system to facilitate processing and recording of scholarship payments and overall financial reporting;
  - develop and implement procedures for conducting site visits, including that site visit reports be prepared and contain information on the overall financial stability of the school; and
  - develop procedures to ensure that accurate information is provided to parents before a school is chosen about the summary achievement data of students, teacher qualifications, and tuition levels, and that schools make such information available on an annual basis to parents of enrolled students.

We also recommend that the Secretary of Education collaborate with the Mayor of the District of Columbia to ensure participating schools are in compliance with all relevant District of Columbia education and safety requirements, including school accreditation and health, safety, and fire code requirements, and receive approval to operate in the District.

Further, we recommend that the Mayor direct the Office of the State Superintendent of Schools to collaborate with the Board of Education to develop and implement procedures for ensuring that private schools in the District meet applicable District requirements and to actively participate in the oversight of OSP. Finally, we recommend that, in planning for future programs for which Congress has required an evaluation, the Secretary of Education should take steps to make certain the program to be evaluated is overseen to ensure it is implemented in a manner consistent with the evaluation design.

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## Agency Comments and Our Evaluation

At our invitation, the Office of the Mayor of the District of Columbia (the District), Education, and WSF provided written comments on a draft of this report, which are reproduced in appendixes III, IV, and V, respectively, and summarized below. WSF also provided technical comments, which we incorporated when appropriate. In general, all three entities concurred with our recommendations, but Education and WSF disagreed with many of our findings and interpretations.

The District agreed with our findings and recommendations. It said the report's findings have been extremely helpful to Mayor Fenty's

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administration as it developed its plan for moving forward to fulfill its responsibilities under the MOU with Education, particularly on the steps the District should take to ensure that parents receive accurate and complete information and that schools receiving funds under the program meet certain basic health, safety, and instructional requirements. The District's comments include specific ongoing or planned steps to ensure that WSF complies with the requirements of federal law and applicable local statutes and regulations. In addition, the Deputy Mayor for Education has directed the District's Department of Consumer and Regulatory Affairs to conduct inspections at the schools identified as having missing or inapplicable certificates of occupancy and is developing an accelerated schedule for reviewing the regulatory status of all schools receiving funds under OSP. In its comments, WSF supplied additional information about one of the several schools DCRA identified as lacking a certificate of occupancy reflecting operation of a private school. After verifying this information with DCRA, we changed the draft to reflect it.

With one exception, Education generally agreed with our recommendations and stated that it would use the information in our report to continue to improve its oversight of the program and its coordination with the District. With respect to our recommendation that, in planning for future programs for which Congress has required an evaluation, Education ensure that the program is implemented in a manner consistent with the evaluation design, Education did not express agreement or disagreement. Rather, Education's comments focus on the OSP evaluation, indicating that we overemphasized the evaluation's challenges resulting from program implementation decisions and other factors and therefore underestimated the evaluation's utility. Specifically, Education stated that the inability to compare OSP students to all students does not undermine the more important analysis of program impact. While Education adopted a strong methodology for its analysis of impact, as required by statute, Education's comment is not responsive to our point that its evaluation was unable to provide a comparison between students offered scholarships and those in the same grades in District schools, as the statute mandated. Also, Education wrote that the inability to include some early scholarship recipients in the evaluation is not a major issue but also noted that the Department rejected the notion of excluding these early recipients altogether, "so that there would be sufficient samples of students to allow impacts to be estimated for subgroups of students.." We maintain excluding about half of students offered scholarships from the evaluation will affect the ability of the evaluation to make strong comparisons. Education also wrote that other supports provided by WSF were not organized and were available to both the treatment and control groups. We disagree. According to WSF, it offered case management

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services, conducted parent empowerment sessions, found and worked with community organizations that provide mentoring and tutoring, and, on a case by case basis, funded private schools to provide enrichment and remedial services to support OSP students. We continue to believe that the challenges we discuss have complicated the interpretation of evaluation findings, limit generalizability, and merit close examination when planning for the evaluation of future programs.

Education's comments also expressed disagreement with many of our findings. Education believes we mistakenly concluded that WSF's practice of paying for tuition scholarships to schools that normally receive donations to cover tuition violates the Act and WSF's policies. We disagree. As discussed in the report and as expressly confirmed in WSF's comments on the draft report, children who attend the three scholarship-only schools pay no tuition. Section 307(a) (1) of the D.C. School Choice Incentive Act states that, to be reimbursed under OSP, the tuition charged by schools may not "exceed the amount of tuition or fees that the school *customarily charges to students* who do not participate in the program." (emphasis added) As section 307(a) (1) makes clear, the amount of allowable tuition reimbursements depends upon the amount of tuition the schools charge to students, not what costs schools incur or what other funding mechanisms, such as donated scholarships, they use to cover those costs.

In addition, Education stated its belief that the report does not present a complete and balanced picture with respect to (1) the extent to which OSP students previously attended schools in need of improvement; (2) the establishment of OSP in time for the 2004-2005 school year; (3) responses from parents and demand for scholarships; and (4) participating schools' legal independence in areas such as hiring and establishing teacher qualifications. With respect to the extent to which OSP students previously attended schools in need of improvement, Education wrote that it would have been more accurate to focus on the percentage of students from schools that received an improvement designation during the student's first year in OSP. We disagree. Scholarship lottery organizers could not be expected to give priority to students from schools that had not yet been designated as in need of improvement.<sup>26</sup> Moreover, regardless of which year is considered, the percentage of students from

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<sup>26</sup> We used the lists of schools identified as in need of improvement *at the time the lotteries were held* to compare OSP scholarship recipients to District public and charter school students—the pool from which they were to have been recruited—in terms of the percentage of students from schools designated in need of improvement.

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schools in need of improvement was consistently smaller among scholarship recipients than among the general population of District students from whom scholarship recipients would have been recruited. With respect to the establishment of OSP in time for the 2004-2005 school year, we included a timeline delineating the key events in implementing this program and discussed the short time available to implement the program in the draft we provided Education to review and in this report. Education indicates that GAO should have included information about positive responses from parents of scholarship students enrolled in private schools. A balanced picture of parental satisfaction would also include views of parents whose children no longer participate or comparisons to school satisfaction among parents who elected not to participate, but collecting such data would have been tangential to our objectives regarding mechanisms to account for program funds, results of efforts to meet recruiting targets, and review of the evaluation. With respect to demand for scholarships, as discussed in appendix I, we attempted to work with WSF's data on program applicants and found these data unreliable. Finally, Education commented that participating schools were allowed to use their traditional independence and that the intent of the law was to maximize participation of private schools in the program. We agree but, as noted above, maintain that participating schools are required to be in compliance with District education and safety requirements. We believe we appropriately addressed each of these areas and, therefore, have not made any changes based on Education's comments.

Education also expressed dissatisfaction with our exit briefing and asserts that GAO refused to brief the Department on its proposed findings and recommendations prior to sending the Department the draft report. However, at a July 10, 2007, exit conference, the meeting that Education mentions in its comments, we presented our findings. The findings we present at exit conferences are preliminary in that they could change on the basis of information we receive at the exit conference as well as information contained in official agency comments. We also held exit conferences with WSF and the Office of the Mayor. We considered all information provided by Education, WSF, and the Office of the Mayor at and subsequent to the exit conferences. Education also noted its concern about the inappropriate disclosure to the news media of the report draft we had provided to Education, WSF, and the Office of the Mayor for comment. We share this concern. While we have policies and procedures designed to help prevent premature disclosure, we cannot ensure that drafts will not be prematurely released once they leave GAO's control.

Education provided further comments:

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- Education wrote that the concentration of scholarship recipients in a subset of participating private schools does not interfere with accurate estimation of the program impact. GAO believes it is essential to investigate whether OSP's effects are generalizable or limited to a small subset of participating schools, and we note that the evaluation contractor's report did not explicitly discuss the potential effects of clustering in private schools.
  - Education requested that GAO investigate the improper disclosure of the report immediately. GAO is examining the circumstances related to this specific instance of premature release. In this regard, we would welcome Education's assistance by requesting that its Inspector General review the Department's policies and procedures for handling draft GAO reports in its control.
  - Education noted that District requirements do not require teaching staff to hold District teaching certificates. We agree and have not asserted District teaching certificates were required.
  - Education wrote that WSF has made significant progress in establishing formal policies and procedures for improved internal controls and integrating its financial management systems. GAO had included this information in the draft report. However, as noted by GAO and WSF, efforts are still underway to integrate the scholarship payment processing with the financial system, which was scheduled to be launched on November 1, 2007. WSF expects to finalize its policies and procedures in January 2008.
  - Education stated in its comment letter that since WSF's receipt of the federal grant funds, WSF's annual independent financial A-133 audits have identified no reportable conditions or material weaknesses. However, WSF's auditors did report an instance of noncompliance with OSP requirements based on the finding that WSF had awarded scholarships to four, out of 40 students tested, from households that did not meet the income eligibility requirements. The auditor added that the effect of this condition was that WSF expended federal funds on ineligible recipients. In response to this finding, WSF stated that it terminated the contract with the outside vendor and brought the eligibility verification process in-house and also developed numerous additional controls.

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In WSF's comments, WSF acknowledged that some of GAO's recommendations, findings, and observations were valid and useful and had taken or will take action to address some of them but disagreed with many of our observations and findings. As we noted earlier in our response to Education, we believe the findings and interpretations are accurate as stated in the draft, and therefore we have not made changes based on WSF's comments. WSF disagreed with our interpretation of the D.C. School Choice Incentive Act with respect to making payments to schools that do not customarily charge tuition to their students, WSF's success in meeting recruiting priorities, and the extent to which it had provided complete information to parents. WSF also stated that it "vigorously disagrees with our conclusion that there must be formal 'academic support activities' in order for before-and-after school programs to contribute to student success." We disagree that our draft report makes this conclusion. We do, however, conclude that we could not determine based on the documentation provided by WSF that WSF actually verifies that before-and-after school care programs are tied to the student's academic program and part of customary fees charged by the school, requirements that are Education and WSF's criteria for determining whether a fee is allowable.

WSF also indicated that GAO erred in analyzing the participation of students from schools in need of improvement, skewing the result toward finding underrepresentation, by not assessing students by grade level. GAO's analysis covered participation by students from schools in need of improvement across all the grades the program was intended to serve. The draft report we previously provided to them discussed the role of grade level in an applicant's effective probability of receiving a scholarship.

WSF officials also stated that our report focused primarily on matters bearing little on the financial viability and effectiveness of the OSP; however, evaluation of the financial viability of the OSP was not within the scope of this engagement. As agreed with the requesters, GAO focused on the identification and assessment of accountability mechanisms over appropriated funding to implement the D.C. School Choice Incentive Act. Implementation of effective internal control is key to achieving accountability over grant programs, such as the OSP. We reiterate that while WSF has taken actions to improve accountability, such as integrating its student database with its online billing system, as of the end of our field work, its operations were still hampered by the lack of integration between its scholarship payment processing and its financial accounting system and the related impact on accountability over cash. We note that the preparation of bank reconciliations is a key cash

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management control. We are pleased that WSF has begun a process to redo all bank reconciliations starting with 2004. We note further that efforts to implement a new financial system began during the time of our review, and according to WSF officials, they now expect the new system to be launched in November 2007 and to result in an increased level of efficiency and accountability.

While WSF believes that the deficiencies noted in this report are minor in nature, we stress that they are indicative of potential problems and if not addressed could possibly have a material, detrimental effect on WSF's accountability over federal funds, especially when combined with the accounting systems and cash reconciliation weaknesses that existed. WSF hypothetically submits that the incidence of error is inflated by GAO counting a missing signature on one fee form as 20 errors if the fee were charged to 20 students' scholarships. Our test results show that the 39 students (78% of the sample) referenced in our report attended 19 different schools participating in the program and that the respective fee forms for those schools were missing an authorizing signature.

In its comments, referring to its oversight visits to the schools in the program, WSF also stated that "GAO puzzlingly reported that WSF did not provide evidence of those visits." While WSF provided us a list of the 42 schools that were visited, WSF was only able to provide one completed report documenting a visit to one of these schools.

WSF commented, with reference to what it understood the rationale to be for GAO's audit, that GAO's draft report cites absolutely no evidence that federal OSP funds have been spent for anything other than genuine educational purposes at any time during the three-plus years of OSP's operation. As we noted in the report, GAO identified instances in which payments were made to some OSP schools for before-and-after care services, and it was not clear, based on the documentation provided by WSF, whether these services were tied to educational activities.

In addition to comments that were also made by Education, WSF wrote that GAO cited no evidence that OSP families have not received the educational services that they sought through participation in the OSP. The direct investigation of the extent OSP families received the services that they sought was outside the scope of our work. We did determine, however, that some families declined the use of scholarships and that others did not remain in the program. For example, in year one of the program, 32 percent of students offered scholarships did not use them, and of the 68 percent that did, 31 percent did not use them in all the years the scholarships were available to them.

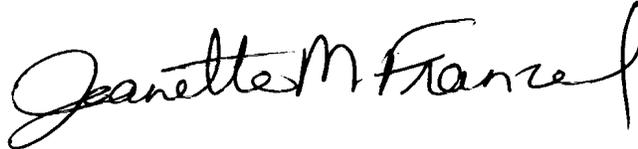
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We are sending copies of this report to the Secretary of Education, the Mayor of the District of Columbia, and the President of the Washington Scholarship Fund, appropriate congressional committees, and others who are interested. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions or wish to discuss this material further, please call Cornelia M. Ashby at (202) 512-7215 or Jeanette M. Franzel at (202) 512-9471.



Cornelia M. Ashby  
Director, Education, Workforce, and Income Security Issues



Jeanette M. Franzel  
Director, Financial Management and Assurance

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# Appendix I: Scope and Methodology

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To address our research objectives, we focused our efforts on assessing three areas: (1) the accountability mechanisms that Washington Scholarship Fund (WSF) has put in place to govern the use of funds, (2) the results of WSF's efforts to meet the program's recruiting priorities and eligibility requirements and inform parents of their choices, and (3) the extent to which the evaluation reflects statutory requirements and the implementation of the program supported the detection of useful and generalizable findings. In performing our work to address these objectives, we interviewed officials from WSF, the Department of Education's Office of Innovation and Improvement and Institute of Education Sciences, and District government officials. In doing our work, we requested and received program, demographic, testing, and funding data from both WSF and Westat. We encountered data reliability problems that affected the achievement of these objectives. These problems and the resulting audit work we performed are described below.

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## Assessing the Expenditure and Accountability of Grant Funds

In assessing the expenditure and accountability of grant funds, we met with grantee and Education officials, reviewed key documents to identify expenditures and key internal controls, and then tested the application of those controls for school year 2005-2006 through sampling. To identify the changes in the grantee's payment processes from 2004 and key internal controls, we met with the grantee staff and reviewed their procedures.

Due to limitations in the grantee's financial accounting software, we used the Excel spreadsheet for school year 2005-2006 as the population of school scholarship payments from which to draw our sample of 50 students. Before selecting our sample, we were unable to determine that the student scholarship payments for school year 2005-2006 were complete and reliable because the total of the payments on the spreadsheet could not be directly traced to the grantee's financial accounting software or the total of funds drawn down from Education. Therefore, we pulled a random sample of students for whom scholarship payments were made for school year 2005-2006. We tested all OSP scholarship payments made during school year 2005-2006 for each of the 50 students selected randomly to determine whether key internal controls were being properly implemented for those transactions.

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## Assessing Demographic and Program Data

In the process of assessing data reliability, we found that the data were sufficiently reliable to address our objectives. However, reliability problems with the WSF student demographic and program data system, limited the analyses that we could perform. Data problems included the following:

- The data were not integrated and different data sets were maintained on different spreadsheets.
- The student data lacked unique and uniform identification numbers that would have allowed the efficient linkage of key data sets from different data and, therefore, made it necessary to link the students' data by first and last names.
- Many data entry errors including misspellings of names and duplicated entries.
- Substantial missing data for such important data fields as race, grade level, and date of birth made the fields insufficiently populated for analyses; for example, 32 percent of data identifying gender, 34 percent identifying birth date, and 32 percent identifying race were missing.

As a result, we were limited in our ability to describe characteristics of students in the program. We were also limited in our ability to link student demographic and financial eligibility data with payment data. We reviewed WSF processes for collecting financial eligibility information and the household income data reported by families of students offered scholarships but we did not test those data as to accuracy. Although we determined that students in the program for whom we had data generally met financial eligibility requirements, we were unable to positively ensure that all students who were receiving Opportunity Scholarship Program (OSP) funds had been determined eligible by WSF due to missing data payment. Using WSF's payment records, we identified 50 students who WSF indicated had received scholarships and were attending private schools, but we could not electronically locate eligibility data for these students. As a result, we could not verify whether these students were eligible. We subsequently sent these names to WSF, which provided alternative spellings for the students' names that enabled us to reduce the 50 nonmatching records to 18. Although these students represent a small percentage of scholarship users, the absence of their financial eligibility data represented a considerable weakness in the data system.

Although we could correct some data errors through manual checking, we were unable to correct and eliminate apparently duplicate records for students who had applied for the program. Due to these duplicate records, we were unable to determine the number of students who applied for the

OSP and, of those, the number and percentage who were determined to be eligible. We attempted to work with the WSF to identify which records were duplicates in the applicant data, and which were valid applicants, but due to data problems we were unable to make these identifications. Instead, we could only report on the number entered into the lottery and whether they received scholarship awards or not.

We used data from WSF to create a database to summarize characteristics of participating private schools. We used data provided by the District of Columbia Public Schools to identify schools designated as in need of improvement and calculate the numbers and percentages of students who attended these schools by year.

Data limitations prevented us from using computerized methods to match information on WSF data sets with the evaluator contractor's database. We attempted to match data from WSF with data collected by the evaluation contractor as a reliability check. However, because the WSF and the evaluation contractor did not develop common identifiers for designating participants in the program, we were unable to match students in an automated fashion, and therefore had to match records using student first and last name. Despite intensive efforts, including manually making spelling changes to over 492 student names, the volume of data mismatches would not allow us to develop a systematic method to match the records of WSF and the evaluation contractor.

The evaluation contractor matched its data to WSF records by attempting to match on a variety of including first and last name and birth date; developed a crosswalk to link by household number; and by manually matching records. The contractor also used a computer application that matched names to other names by phonetic spelling; that is, names were matched with other names that sounded similar, allowing it to match most of the data. We determined that this method was not sufficiently reliable for our purposes because some names had similar phonetic spelling.

Additionally, we found large discrepancies between the numbers of applicants and eligible students included on the evaluation contractor's database and in the WSF files. This further decreased our confidence in the use of these data for this population.

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## Assessing Strategies to Recruit Families and Private Schools and Inform Parents about Their Choices

To assess how the grantee was meeting the program's recruiting and eligibility objectives and informing parents about their choices, we interviewed knowledgeable officials and examined program documentation, especially relating to recruitment and selection of both students and private schools. Apart from reviewing publicly available information about schools, we did not evaluate schools or their performance. To determine the number of OSP students who had attended schools in need of improvement, we identified the type and No Child Left Behind status of schools previously attended by students in cohorts 1, 2, and 3, and quantified the number of students who had attended District of Columbia public schools in need of improvement for each year that the program operated. To determine whether all participating private schools met the requirements to operate lawfully in the District, we selected a non-probability sample of 18 schools, using various criteria such as whether or not schools had registered with the District's Department of Consumer and Regulatory Affairs and whether or not schools were accredited by an agency recognized by the District. To determine the validity of information in the directories published by WSF in order to see if information provided parents was accurate, we compared directory information with information available from other sources. In reviewing the directory information, we became aware of discrepancies in information reported in English and Spanish versions of the directory, and information provided across different school years. We found the information across sources, across years, and between the English and Spanish version was inconsistent.

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**Assessing the Extent  
to Which the  
Evaluation Reflects  
Statutory  
Requirements and the  
Implementation of the  
Program Supported  
the Detection of  
Useful and  
Generalizable  
Findings**

To assess the extent to which the evaluation reflects the requirements in the Act and to which the implementation of the program supported the detection of useful and generalizable findings, we met with Education officials from the Institute of Education Sciences and examined documents including the contractor's participation reports for program year one and program year two, the analysis plan it developed for its evaluation of impacts after 1 year of program participation, and the *Evaluation of the D.C. Opportunity Scholarship Program: Impacts After One Year*, released in June 2007. We also reviewed contractual documentation. To assess the usefulness of evaluation findings, we examined program attrition, the extent of missing test data, and the statistical methodology the contractor used to analyze comparisons between students offered scholarships and students not offered scholarships, and, to a lesser extent, between students in these groups who used their scholarships and those who remained in public schools.

# Appendix II: Laws Authorizing Related Voucher Programs

**Table 9: Analysis of Laws Authorizing Voucher Programs in the District of Columbia and the State of Ohio**

<b>Analysis of state laws on private school vouchers</b>	<b>District of Columbia</b>	<b>State of Ohio</b>
Name of program	D.C. School Choice Incentive Program	Educational Choice Scholarship (EdChoice) Pilot Program
Year enacted	2004	2006
Description and eligibility requirements	The Opportunity Scholarship Program, also known as the D.C. School Choice Incentive Program, provides scholarships to students for attendance at private schools in the District of Columbia. It is federally funded. To be eligible, students must be from families who reside in the District and whose household income does not exceed 185 percent of the federal poverty level. Scholarship recipients who received their first scholarship in 2004-2005 or 2005-2006 school year may retain their scholarships if their household income does not exceed 300 percent of the poverty level. If the number of new scholarships in any year is less than the number of eligible applicants, selection of recipients follows a lottery method. Priority is given to students attending schools identified for improvement, corrective action, or restructuring under Title I of the No Child Left Behind Act of 2001.	Students who attend or will be entering Ohio public schools that have been designated by the state as “Academic Watch” or “Academic Emergency” for 2 of the last 3 years are eligible to receive scholarships to attend the participating private school of their choice. Students currently enrolled in charter schools but who would otherwise be assigned to schools in these categories are also eligible. Students in the Cleveland Municipal School District are not eligible to participate, as the state offers a separate scholarship program for these students. Scholarships are not available to students currently enrolled in a private non-public school or who are home-schooled. Eligible students must first be accepted at a participating private school for the next school year before applying for an EdChoice scholarship.
Currently implemented	Yes	Yes
Participating students	1,819	2,785
Geographic area	D.C.	State of Ohio, except Cleveland
Limit on number of students	Limited by available funding	Limit of 14,000; if number exceeds 14,000, priority will be given to students who already received scholarships and with family incomes at or below 200 percent of the poverty level, and students will be elected by lot to receive remaining scholarships.
Grades	K-12	K-12
Average or maximum amount of assistance	\$7,500	\$5,000
Criteria for determining amount of assistance	The annual scholarship amount is \$7,500 or the participating private school’s tuition, fees, and any transportation costs, whichever is less.	The EdChoice scholarship amount is currently set at \$4,250 for elementary school students (grades K–8) and \$5,000 for high school students or the private school’s tuition amount, whichever is lower. The scholarship amount will increase slightly each year.
Types of schools allowed to participate	Any private elementary or secondary school within DC, including religious schools.	Any chartered nonpublic school that meets the state’s requirements.

**Appendix II: Laws Authorizing Related  
Voucher Programs**

<b>Analysis of state laws on private school vouchers</b>	<b>District of Columbia</b>	<b>State of Ohio</b>
Testing or evaluation criteria	As mandated by law, the program is evaluated rigorously on an annual basis by an independent research organization. Evaluations address the academic achievement and the retention, dropout, and college admissions rates of scholarship recipients, in comparison both to students who remain in D.C. public schools and to students who applied for but did not receive scholarships. Evaluations also examine the following: the success of the program in expanding educational options for parents; the reasons why parents choose to have their children participate in the program; the impact of the program on students and public schools in the District; and the safety of the schools attended by scholarship students, in comparison to other D.C. schools.	Private schools are required to administer state achievement tests to scholarship students.
Accreditation of private schools	Not specified	A nonpublic school must hold a valid state charter and comply with the operating standards for Ohio's schools and agree to register with the Ohio Department of Education and comply with the rules of the program, including administering state achievement tests.
School admission requirements	Not specified, but does state that students must abide by rules of the school applicable to all students.	Not specified, but students must gain admittance to the eligible private school before applying for the scholarship.
Discrimination provision	Certain exemptions from nondiscrimination requirements are given to participating schools with a religious affiliation. Participating private schools cannot discriminate on the basis of race, color, national origin, religion, or sex (except for single-sex schools).	Not specified
Religious "opt out" clause	Not specified	Not specified
Financial audit requirements	Administrative entity is responsible for ensuring that participating schools are financially responsible.	Not specified
Transportation	Funds may be used for transportation expenses.	Students enrolled in nonpublic schools may be entitled to pupil transportation services from their public school district of residence. The nonpublic school must be within a 30-minute bus ride from the public school during the school day. In certain cases, a public school district may declare a student "impractical to transport" and instead provide limited reimbursement payment to the parent.
Authorizing statute	D.C. Code § 38-1851.01 — D.C. Code § 38-1851.11	Ohio Revised Statutes. Sections 3310.01-3310.17

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**Appendix II: Laws Authorizing Related  
Voucher Programs**

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**Analysis of state laws on  
private school vouchers**

**District of Columbia**

**State of Ohio**

Legislative history

On January 23, 2004, President Bush signed the program into law via the D.C. School Choice Incentive Act of 2003, which was included in the Consolidated Appropriations Act of 2004. In 2006, legislation passed that raised the household income eligibility renewal limit from 200 to 300 percent of the federal poverty level for students who received their first scholarship in 2004-2005 and 2005-2006 school years. The program was first implemented in the 2004-2005 year and is the first of its kind at the federal level.

On June 30, 2005, the Educational Choice Scholarship Pilot Program was signed into law as part of an omnibus education bill. On March 30, 2006, a new omnibus education bill was passed that expanded eligibility for scholarships under the program to students in schools in “academic emergency” or “academic watch” for the 3 previous years; the previous law limited eligibility to students only in schools in “academic emergency,” the lowest category in the school rating system. On March 30, 2007, eligibility for scholarships was further extended to students in schools in these categories for 2 of the previous 3 years.

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Year enacted

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Source: GAO Analysis of State Laws and U.S. Department of Education, *Education Options in the States: State Programs that Provide Financial Assistance for Attendance at Private Elementary or Secondary Schools* (Washington, D.C.: Aug. 2007).

**Appendix II: Laws Authorizing Related  
Voucher Programs**

**Table 10: Analysis of Laws Authorizing Voucher Programs in Cleveland, Ohio, and Milwaukee, Wisconsin**

<b>Analysis of State Laws on Private School Vouchers</b>	<b>Cleveland, Ohio</b>	<b>Wisconsin—Milwaukee</b>
<b>Name of program</b>	<b>Cleveland Scholarship and Tutoring Program</b>	<b>Milwaukee Parental Choice Program</b>
Year enacted	1995	1990
Description and eligibility requirements	The Cleveland Scholarship and Tutoring Program provides scholarships to students in the Cleveland Municipal School District. The scholarships are for attendance at a qualified private school within the district or at a public school in any district surrounding Cleveland. Students in grades K–8 are eligible to apply for scholarships. Scholarship recipients may retain their scholarships through grade 12. If the number of new scholarships in any year is less than the number of eligible applicants, selection of recipients follows a lottery method. Students from low-income families have priority in receiving new scholarships.	The Milwaukee Parental Choice Program (MPCP) provides scholarships to students for attendance at participating private schools in Milwaukee. To be eligible, students must be from families who reside in Milwaukee and whose household income does not exceed 175 percent of the federal poverty level. A student participating in the program, and whose family income increases, may remain in the program until the family’s income exceeds 220 percent of the federal poverty level. The maximum participation is 22,500 students. Applications for scholarships are submitted directly to participating schools. If a participating school receives more applications in any year than it has seats available, selection of recipients follows a lottery method. Siblings of current scholarship recipients have priority in receiving new scholarships.
Currently implemented	Yes	Yes
Participating students	5,921	17,410
Geographic area	Cleveland Municipal School District	City of Milwaukee
Limit on number of students	Number of scholarships limited by the amount of state-appropriated funds available.	22,500
Grades	K-8 for new applicants or 9-12 for renewal students	K-12
Average or maximum amount of assistance	\$3,450	\$6,501

**Appendix II: Laws Authorizing Related  
Voucher Programs**

<b>Analysis of State Laws on Private School Vouchers</b>	<b>Cleveland, Ohio</b>	<b>Wisconsin—Milwaukee</b>
<b>Name of program</b>	<b>Cleveland Scholarship and Tutoring Program</b>	<b>Milwaukee Parental Choice Program</b>
Criteria for determining amount of assistance	To attend a participating private school, the annual scholarship amount is based on the tuition of the school and the family income level of the recipient. Currently, the scholarship amount may not exceed the approved private school's tuition or \$3,450 for students in grades K–12, whichever is less. For recipients whose family income level is below 200 percent of the federal poverty level, the actual scholarship award is 90 percent of (up to) the maximum amount (i.e., a student from such a family and currently in grade 8 may receive a scholarship award of at most \$3,105). For recipients whose family income is at or above 200 percent of the poverty level, the scholarship is 75 percent of (up to) the maximum amount. Remaining tuition costs are to be covered by parents; however, for recipients in grades K–8 whose family income level is below 200 percent of poverty, participating schools must not charge any tuition in excess of the remaining 10 percent of the amount, whatever that amount may be.	For the 2006-2007 academic year, the scholarship amount is the participating private school's per pupil expenditure or \$6,501, whichever is less. Participating schools must accept the scholarship amount as full payment of tuition.
Types of schools allowed to participate	Any nonpublic chartered schools within the boundaries of the Cleveland Municipal School District that meets all applicable requirements.	Any private school within the city
Testing or evaluation criteria	Not specified	The law requires participating private schools to administer nationally normed standardized tests to scholarship recipients in grades 4, 8, and 10.
Accreditation of private schools	The school must meet all state minimum standards for chartered nonpublic schools in effect on July 1, 1992, except that the state superintendent at the superintendent's discretion may register nonchartered nonpublic schools meeting the other requirements of this division.	With respect to participating private schools, the law requires schools to be accredited from among a list of accrediting agencies.
School admission requirements	Schools are required to give preference to students previously enrolled and their siblings, but specifies the number of scholarship students for grades K-3 equals the number that constituted 20 percent of the total number of students enrolled in the school during the preceding year in such grade. Scholarship students are to be randomly selected by lottery. Schools must admit students in grades who were previously admitted.	Participating private schools shall accept pupils on a random basis, but may give preference to siblings of pupils already enrolled or current scholarship participants. May only consider income and grade level, not academic achievement.

**Appendix II: Laws Authorizing Related  
Voucher Programs**

<b>Analysis of State Laws on Private School Vouchers</b>	<b>Cleveland, Ohio</b>	<b>Wisconsin—Milwaukee</b>
<b>Name of program</b>	<b>Cleveland Scholarship and Tutoring Program</b>	<b>Milwaukee Parental Choice Program</b>
Discrimination provision	Participating private schools may not discriminate on the basis of race, religion, or ethnic background, and may not promote unlawful behavior or teach hatred.	A school may not use an applicant’s race, ethnic background, religion, priority test scores, grades, or membership in the church parish when making admissions decisions. Participating private schools may not discriminate on the basis of race, religion, or ethnic background, and may not promote unlawful behavior or teach hatred.
Religious “opt out” close	Not specified	Students may be excused from religious activities at a religious school if their parent or guardian submits a written request to the teacher and principal of the school. Participating schools may not require a recipient to participate in religious activities.
Financial audit requirements	Not specified	The Act requires an annual financial audit and specifies other extensive accounting and financial requirements.
Transportation	Must be provided by Cleveland Municipal School District.	The Milwaukee School District may provide transportation or pay some of the cost, in certain cases.
Authorizing statute	ORC Ann. 3313.974 – ORC Ann. 3313.99	Wis. Stat. § 119.23
Legislative history	The program was enacted in 1995 and first implemented in the 1996-1997 school year. On July 1, 2003, the state legislature amended the program to allow recipients to retain their scholarships through grade 10, as of the 2004-2005 academic year, and also raised the maximum scholarship amount from \$2,500 to \$3,000. In June 2005, the legislature expanded the grade range of students to whom new scholarships are available from grades K –3 to K –8; it also allowed scholarship recipients to retain their scholarships through grade 12 during the 2006-2007 year and raised the maximum scholarship amount available to all recipients, regardless of grade, to \$3,450 for the 2006-2007 and subsequent years.	The Milwaukee Parental Choice Program was enacted in 1990. In 1995, it was expanded to include religious schools. In 2006, the law was changed to increase the number of students who may participate in the program, by increasing the income limit from 175 percent to 220 percent over the federal poverty level and by eliminating the prior year attendance requirements (allowing students who move into the district to be eligible).
Year enacted	1995	1990

Source: GAO Analysis of State Laws and U.S. Department of Education, Education Options in the States: State Programs that Provide Financial Assistance for Attendance at Private Elementary or Secondary Schools (Washington, D.C.: Aug. 2007).

# Appendix III: Comments from the Office of the Mayor of the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Deputy Mayor for Education

Victor Reinoso  
Deputy Mayor for Education



October 22, 2007

Cornelia M. Ashby, Director  
Education, Workforce, and Income Security Division  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Ashby:

Thank you for sharing your draft report on the District's school voucher program with me and my staff and for providing us the opportunity to comment on it prior to publication.

As you stated in the report, the District's federally-funded voucher program was authorized by Congress in January 2004 and has been in operation since the 2004-2005 school year. As you know, neither I, nor the Mayor, was in a position during the program's first three years to exercise oversight of the program as envisioned in the Memorandum of Understanding ("MOU") between that the U.S. Department of Education and then-Mayor Anthony Williams.

Having said that, the report's findings, and the discussions we had while your team was conducting its review, have been extremely helpful to us as we developed our plan for how the Fenty Administration would fulfill its responsibilities under the MOU moving forward, and, in particular, what steps we should take to ensure that parents considering participating in the program receive accurate and complete information regarding the schools their child might attend and that schools that receive funds under the program meet certain basic health, safety, and instructional requirements.

I would like to take a moment to share with you the steps we already have taken to improve oversight of this program:

- First, on my recommendation, Mayor Fenty delegated his direct oversight responsibility under the MOU to Deborah Gist, the District's State Superintendent of Education. Ms. Gist heads a new, independent state education agency created as part of the Mayor's education reform legislation. Her agency is charged with oversight of all federal education funds received by the District and, as such, I believe it is uniquely positioned to serve in this role.

- Upon receipt of the delegation letter, Ms. Gist contacted the Department of Education to request a meeting regarding the problems in program management by the Washington Scholarship Fund (“WSF”) and in oversight identified by GAO. A meeting was then convened to discuss how the parties should more closely monitor WSF’s compliance with statutory requirements relating to student recruitment, targeting of students attending schools “in need of improvement,” tuition and fees, and program evaluation<sup>1</sup> in the future.
- Because the original MOU between the Department and the District did not contain any details regarding coordination or division of their oversight role. Ms. Gist has since recommended to the Department that the parties enter into a follow-on agreement that clearly assigns certain activities to her agency and others to the Department.
- In addition, Ms. Gist and her staff met with WSF to explore ways that the District can assist that organization in complying with the requirements of the federal law and with applicable local statutes and regulations.<sup>2</sup>
- Ms. Gist has assigned a member of her staff to act as the liaison to the Department and WSF and has given her primary responsibility for ensuring that the District’s oversight obligations under the follow-on agreement are met.
- Finally, Ms. Gist is developing an infrastructure within her office for tracking the compliance of all non-public schools in the District, including those that participate in the voucher program, with local regulations<sup>3</sup> requiring them to be accredited by a recognized independent accreditation body or to have otherwise demonstrated satisfactory evidence of program quality.

In addition, I have directed the District’s Department of Consumer and Regulatory Affairs (“DCRA”) to conduct inspections at all of the schools identified in your report as having inapplicable or missing Certificates of Occupancy. As we discussed, these certificates are critical, because they show that the schools have met certain construction, health, safety, and fire codes.<sup>4</sup> Those inspections are underway and should be completed by the middle of next week. At that point, we will determine whether those facilities currently meet the regulatory requirements applicable to school buildings and can be issued the proper certificates, whether any violations that exist can be quickly remedied, or whether a school that is unable or unwilling to remedy its status will be required to close or relocate in order to protect the health and safety of its students. My office also will work with DCRA to develop an accelerated schedule for reviewing the regulatory status of all of the schools receiving funding under the voucher program.

<sup>1</sup> See Consolidated Appropriations Act for Fiscal Year 2004 (H.R. 2673)/P.L. 108-199, and House Rept. 108-401, Div. C, Title III.

<sup>2</sup> The MOU stipulates that only schools “operating lawfully in the District” may participate in the program.

<sup>3</sup> See DCMR 2100.2.

<sup>4</sup> DCMR Title 12, 2003 Building Codes Section 110A and DCMR Title 11, Section 3203.

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Appendix III: Comments from the Office of  
the Mayor of the District of Columbia

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I would like to reiterate that the primary concern of the Fenty Administration is ensuring that the instruction received by children who participate in this program meets widely-accepted, independent standards for educational programs, that the children learn in facilities that do not present threats to their health or safety, and that their parents receive accurate information regarding the quality of that instruction. We look forward to working with the Department and WSF to ensure that that is the case.

Thank you, again, for your help in highlighting key areas on which we should focus as we developed policies and procedures for effective oversight of this program and as we move forward to implement them.

Sincerely,



Victor Reinoso  
Deputy Mayor

# Appendix IV: Comments from the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INNOVATION AND IMPROVEMENT

October 23, 2007

Ms. Cornelia M. Ashby  
Director, Education, Workforce and Income Securities Issues  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Ashby:

Thank you for the opportunity to comment on the draft report entitled, "District of Columbia Opportunity Scholarship Program (OSP): Additional Policies and Procedures Would Improve Internal Controls, Program Operations, and Goal Attainment."

In the report, GAO makes recommendations that the Secretary of Education direct the Washington Scholarship Fund (WSF) to improve internal controls, integrate financial systems, improve monitoring and site visit procedures, and provide accurate information to parents. GAO also makes two additional recommendations that the Secretary and the Mayor of the District of Columbia (District) take specific steps to ensure participating schools are in compliance with all relevant District education and safety requirements and that the Mayor implement procedures to ensure that private schools meet District requirements. GAO also recommends that, in planning the implementation of future programs for which an evaluation is required, the Secretary take measures to ensure that oversight efforts and other program implementation matters are handled in a manner consistent with the evaluation design required by Congress.

The Department's comments include several general comments on three broad concerns, and then comments on specific recommendations.

#### GENERAL COMMENTS

As an initial observation, we feel obligated to note that GAO refused to brief the Department on its proposed findings and recommendations prior to sending us the draft report. This type of briefing is usually done by GAO at a substantive "exit conference" which is held after GAO's audit work is completed and before the draft report is prepared and issued, to provide an opportunity for the parties to discuss the draft findings and recommendations and clarify possible ambiguities or misunderstandings, before those findings and recommendations are finalized in the draft report. At a July 10 meeting GAO staff orally presented what they indicated were preliminary observations and indicated that they could not discuss draft findings or any recommendations at that time.

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Following that meeting, Department staff were sufficiently concerned about possible misunderstandings by GAO on several key points (including, but not limited to, the participation of students from schools in need of improvement, the lawful operation of private schools in the District and related matters including teacher quality and accreditation, and the program's evaluation) to request a more substantive exit conference. We also submitted a 10-page document to GAO on July 26 with clarifying and additional information in a further effort to correct possible misunderstandings. Additionally, at the request of a GAO Deputy Assistant General Counsel, on August 6, 2007, Department representatives participated in a teleconference to address GAO questions about the permissibility of paying fees for before and after school programs under the OSP.

Department representatives continued to request that GAO participate in a more substantive exit conference meeting with our staff prior to preparing the draft report to ensure there were no further questions about the information provided and no further misunderstandings to be resolved before a complete and accurate report could be presented. Unfortunately, GAO denied the Department's request for such a meeting and the resulting draft report demonstrates that certain misunderstandings continue to exist, especially with regard to the information provided to GAO by the Department after the meeting held on July 10.

Additionally, the Department continues to be extremely disturbed that this draft audit report was improperly disclosed to various local media outlets, including *The Washington Post* immediately after the issuance of the report. As discussed in General Counsel Kent Talbert's letter to the Comptroller General, dated October 12, 2007, while we do not believe that any GAO personnel were involved in the improper disclosure, we are very concerned that GAO may not have adequate procedures in place to "prevent improper disclosure," and to follow up, once an improper disclosure is discovered.

Under section 6.45 of the "Government Auditing Standards: July 2007 Revision," it is imperative to have a secure process for distributing "a draft report with findings for review and comment by responsible officials of the audited entity and others" to help "the auditors develop a report that is fair, complete, and objective." When this process is not followed and information is disclosed improperly, the fairness, completeness, and objectivity of the process are seriously threatened. As a result, General Counsel Kent Talbert's letter requested GAO to investigate the improper disclosure immediately. He has received no response to his letter from the Comptroller General.

Finally, the draft report does not present a complete and balanced picture in a number of key areas, and does not accurately reflect what actually occurred in the program during the period audited. For example, the report criticizes the extent to which students who participate in the program previously attended schools in need of improvement (SINI). As previously explained to GAO, the statutory requirement that SINI students receive priority under the program was implemented through "scholarship lotteries." Because the lotteries must be conducted in the spring before each upcoming school year, several

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months before the District reports its SINI designations each August, the priority group categories in the lottery are based on SINI designations for the previous year.<sup>1</sup> In the first year of the program, the lottery occurred before there was a meaningful determination of SINI.

Thus, especially for the first two years of the program, it is more accurate to consider the designation of the school for the school year in which a student spends his or her first year in the OSP--August 2004 SINI designations for the spring 2004 applicants and August 2005 designations for the spring 2005 applicants. The distinction is most clear in the second year evaluation report. At the time of the initial lotteries, only 5.9 percent of spring 2004 applicants were technically from schools designated as SINI for the 2002-03 school year, but 37.1 percent of the applicants were from schools designated as SINI in August 2004 based on those schools' performance in the 2003-04 school year.

GAO was asked to assess the implementation of the OSP program, and we believe that with regard to a number of key areas, in addition to the one mentioned above concerning schools in need of improvement, the draft report presents incomplete and, therefore, less than balanced views in a number of important respects, including the following:

- 1) *The success of the Department and WSF in establishing the OSP in time for the 2004-2005 school year.* As Congress considered the bill that would authorize the OSP program, the Department took steps to identify the internal resources that would be needed to effectively implement the program. Once Congress appropriated funding, the Department was able to conduct a grant competition and award a grant to WSF in an extremely expeditious manner—this whole process took only six weeks, but was done in accordance with all appropriate Department policies and procedures. WSF very promptly and effectively identified interested private schools and formulated agreements with those schools to participate in the program, conducted an extraordinary outreach effort to identify families who might be eligible to participate, assisted these families in preparing paperwork necessary to document eligibility, provided for and conducted a lottery, and awarded scholarships in time for the beginning of the school year.
- 2) *The very positive responses from parents about their children's experiences in their new schools.* Studies by both the Department and Georgetown University cite the high levels of parental satisfaction with their experiences with the program and with their schools of choice. According to the Department's report, using a scholarship significantly increased parental satisfaction with their child's school in every measured area. Seventy-four percent of scholarship parents gave their children's schools an 'A' or a 'B' grade. In the Georgetown University study, the majority of parents reported being very satisfied with their school choice experiences, citing

<sup>1</sup> For example, SINI students in the cohort 1 (spring 2004) lottery had to be grouped based on SINI designations made in August 2003, using performance data from the 2002-03 school year. But 2 months after the lottery, significantly more schools were designated for SINI for 2004, and it is this later number that provides a more accurate representation of which schools were low performing when students in cohort 1 were applying to the OSP.

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changes in their children's attitudes about learning as the main source of their satisfaction. Approximately 90 percent of the parents interviewed reported that their children would remain in the program for at least another year.

- 3) *The increased demand for scholarships in each year of the program's existence.* Most recently, the demand for scholarships rose 5.5 percent for the 2007-2008 school year over the previous year. There have been similar increases in demand for the program in each of the previous years, and there is now a waiting list of 400 families.
- 4) *The extent to which private schools participating in the program are legally permitted to maintain their traditional independence in such areas as hiring and establishing qualifications for teachers.*<sup>2</sup> Consistent with the intent and language of the law, the program was implemented by WSF in order to encourage maximum participation of private schools to ensure sufficient capacity and options for participating families. Private schools participating in the program were permitted to maintain their traditional and lawful independence in such areas as hiring and establishing qualifications for teachers, establishing admissions criteria, and setting standards for grading and promotion. We also note that with regard to teacher qualifications, District regulation CDCR 5-2100.2(c) provides:

(c) Qualifications of staff: training and educational requirements for teaching and supervisory staff must be acceptable to the Board, although a District of Columbia teaching certificate is not required.

- 5) *GAO's understanding of WSF explanations for certain decisions.* GAO mistakenly concluded that "WSF did not adhere to its own procedures for making scholarship payments" based on WSF's decision to use scholarship funds to pay tuition for students attending schools that normally receive donor contributions to cover tuition. As WSF previously explained to GAO, it believes that this is "a difference of interpretation of the statute" since these schools are not "free" but operate on contributions from private donors. The OSP provided funding so that eligible families could choose to attend these schools and the schools could serve these children when they would not have had the financial resources to do so otherwise.

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<sup>2</sup> We also note that responsibility for many of the other concerns mentioned throughout the GAO report about decisions made during the implementation of the OSP by the Department, the District, and WSF were outside of the control of those implementing the program, e.g., the number of high school slots available for scholarship recipients.

GAO raised a concern about the number of students receiving scholarships during the first year of the program that already attended private schools. These students met the definition of "eligible student" in the statute, and Congress did not limit participation in the program to eligible students attending public schools.

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COMMENTS ON SPECIFIC RECOMMENDATIONS

Internal Controls and Financial System

*The Secretary shall direct WSF, the grantee, to establish and implement detailed policies and procedures to improve financial controls over OSP grant funds, establishing compensating controls to reduce the risks of fraud in situations where segregation of duties is not possible, and continue its efforts to implement an integrated financial management system.*

Since the very early implementation of the program, WSF has made significant progress in establishing more formal policies and procedures for improved internal controls and in integrating its financial management systems to greatly reduce the risk of waste, fraud, and abuse. The organization's annual independent financial A-133 audits since its receipt of the federal grant have identified no reportable conditions or material weaknesses. In a separate letter, WSF's auditor recommended, and the organization subsequently developed, a financial manual consolidating its policies and procedures. This manual currently is being updated to include further details recommended by GAO.

WSF has explained to GAO that its new billing system is fully integrated with its student information database and has replaced the manual procedures to which GAO refers in its draft report. A fully improved financial system is scheduled to be in place by November 1 and will be updated with all data for the 2007-08 school year. Department staff will continue to work with WSF to ensure these policies and procedures are appropriately implemented and updated, as necessary.

School Monitoring and Site Visits

*The Secretary shall direct WSF to develop and implement procedures for conducting site visits.*

Regarding GAO's recommendations for site visits by WSF, the organization keeps records of all visits. WSF has explained to GAO that it extensively documents problems or issues that are identified during site visits, and takes timely corrective action. As a control to check the accuracy of assurances and directory data, WSF is developing specific site visit questions and related procedures.

Information to Parents

*The Secretary shall direct WSF to develop procedures to ensure that accurate information is provided to parents before a school is chosen.*

On a related GAO recommendation regarding school information provided to parents, WSF has consulted with the private schools on an annual basis to collect and update this information. During the first year of the program, WSF asked each school to complete a survey and in subsequent years asked each school to edit a printout of the previous year's

Page 6

information and provide updated data. As referenced above, WSF will include data verification questions when it conducts site visits as a control to determine the accuracy of information that schools have reported for the directory for parents.

Collaboration with Mayor of the District of Columbia

*The Secretary shall collaborate with the Mayor of the District of Columbia to ensure participating schools are in compliance with all relevant District of Columbia education and safety requirements.*

GAO also recommends that the Secretary collaborate with the Mayor of the District of Columbia to ensure that participating schools are in compliance with all relevant District of Columbia regulations, including education and safety requirements. The Department's July 26 written submission provided detailed information documenting that, given the guidance set forth by Congress in the statute and accompanying legislative history regarding private school participation in the program, the approach taken by the Department and the District in the Memorandum of Understanding (MOU) – which requires participating schools to provide assurances that they are operating lawfully within the District – is lawful and reasonable and fulfills the joint oversight responsibilities set forth in the federal statute. This approach of using assurances is commonly utilized in a number of Department programs and is often required by law in programs administered by the Department. The approach was designed to reduce burden and maximize participation by eligible private schools in the District while ensuring compliance with all applicable legal requirements. Additionally, we note that WSF does have an established process to review practices of private schools participating in the program in order to address instances when concerns about participating schools were identified.

WSF's implementation of the requirements identified in the federal statute and MOU through its guidance and forms (including its Letter of Agreement, Key Data Form, consultation with schools, and ongoing consultation with the Department about the process of school consultations and complex questions raised during them) were an appropriate and effective exercise of grantee authority. The Department did not have any reason to assume that assurances would not fully reflect the school's legally operating status in the District. Given the results of this study, however, the Department is taking steps to ensure that the participating schools are in compliance with all District regulations.

Department staff and the new State Superintendent of Schools (now the District's responsible official for the Opportunity Scholarship Program under the MOU) already have met to discuss and clarify appropriate roles for the OSP. An important area of cooperation will be ensuring that all schools meet the requirements of the District for operating lawfully. We understand that the Mayor's office has directed the Department of Regulatory and Consumer Affairs to conduct inspections, on an expeditious basis, of the schools that GAO identified as not having occupancy permits. Also, the State Superintendent of Schools office is assuming responsibility for ensuring that there is

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appropriate documentation for the accreditation of private schools, including those participating in the OSP. The Department and the State Superintendent of Schools office will revise the current MOU to reflect these specific activities and any other responsibilities agreed upon by the two agencies.

Program Implementation and Evaluation Design

Finally, we address GAO's findings and recommendations on evaluation. GAO asserts that program implementation and other factors have limited the usefulness of and ability to generalize its evaluation findings, and that in the future, the Department should ensure that program implementation is more consistent with the design of a statutorily mandated evaluation.

While we agree that some external factors did have an effect on carrying out the evaluation as planned, GAO appears to have misunderstood some aspects of the evaluation, leading the agency to underestimate the evaluation's utility. Below, we have addressed GAO's concerns by correcting misimpressions about the evaluation design in general and its priorities.

- 1) *The inability to compare OSP participants to all students in DCPS schools does not undermine the more important analysis of program impacts.* GAO rightly points out that the change in the testing program by the DC Public Schools (DCPS) prevents the evaluation from comparing the academic achievement of scholarship recipients to the achievement of students in DCPS in general. However, that was only one of the analyses called for in the legislation, and it does not provide a reliable indicator of program effects because, as the evaluation's first year report described, DCPS students who did not apply to the OSP are different from those who applied and are participating, making any simple comparison between outcomes from the two groups biased and unscientific. The main purpose of the evaluation was to estimate the effectiveness or *impacts* of the program, comparing the achievement of OSP applicants who did and did not receive scholarships through the lotteries, and this purpose is being fulfilled.
- 2) *The inability to include some early scholarship recipients in the evaluation is not a major problem as GAO implies.* Very early applicants to a program are often different (e.g., more motivated or more needy) than those who apply in subsequent years. It is true that the impact evaluation could not include the first year OSP applicants for grades K-5 because they were all given scholarships and therefore no control groups were formed for them through lotteries. However, the set of second year (cohort 2) applicants—all of whom are included in the evaluation—is likely to provide a more reliable estimate of impacts for the types of students who would be participating when the program is in a "steady state" of operations. For that reason, the evaluation team considered restricting the impact analysis to cohort 2. We included the cohort 1 randomly assigned middle and high school applicants so that there would be sufficient samples of students to allow impacts to be estimated for subgroups of students (e.g., by grade band), but we statistically allow for differential

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effects across the cohorts. Even without the K-5 first year applicants, the number of students included in the impact evaluation is actually the largest used in any rigorous study of private school scholarships.

- 3) *“Crossover” is a natural part of any program and randomized control trial, not a flaw in them.* GAO describes the fact that some control group students (those who applied but did not receive a scholarship through the lotteries) attended private schools as hindering the analysis and interpretation of program impacts. In fact, the control group’s behavior is supposed to reflect what would have happened in the absence of the program; students’ ability to obtain access to a scholarship other than the OSP or to find some other way to attend a private school without the OSP is an important piece of information in determining the impact of the offer of this scholarship. The evaluation then uses commonly accepted statistical approaches to “net out” the crossovers in its analysis of the relationship between attending a private school and student outcomes, which is separate from the analysis of program impacts.

GAO also criticizes the evaluation for failing to distinguish scholarship recipients who did not use their scholarships because they could not find a school placement (“forced decliners”) from non-users who declined to use their scholarship for other reasons. Since GAO officials reviewed the evaluation’s analysis plan, they know that the study intends to address this issue through a variety of non-experimental approaches. However, the first year there were so few of these forced decliners that the issue did not warrant additional analyses; these analyses are being incorporated into the next report describing impacts after two years.

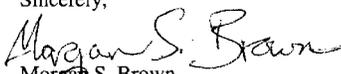
- 4) *The concentration of scholarship recipients (including those in the impact analysis) in a subset of private schools does not interfere with accurate estimation of program impacts.* It is neither surprising nor unique to the DC OSP that participating students are not evenly distributed among the participating private schools. As a policy intervention, school scholarships provide resources to parents who subsequently select private schools for their children. Those participating private schools will inevitably vary in the number of spaces available to scholarship students and in their relative attractiveness to parents. That is, choices made by both private schools and parents are a part of the OSP “treatment.” There is no “confounding” of program and school effects, as GAO states, because the school effects and the program effects are one and the same; any statistical techniques to control for school-level characteristics in evaluating school choice programs would improperly take away most if not all of the true treatment effect. In technical terms, the clustering of OSP scholarship users within private schools only reduces the efficiency of the impact estimates, and only by 2 percent as described in the Year 1 impact report, but the substantial number of students in the impact sample helps to offset that slight reduction in precision.
- 5) *The other supports the program operator provided were not organized or used in ways that lessen the usefulness of the evaluation findings.* If the program operator (WSF) systematically provided supplemental services (beyond the offer of a scholarship), then the evaluation would be estimating the impacts of that combined

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treatment and would have a difficult time disentangling the independent effect of the scholarship. However, as we understand it, WSF makes additional services available to some OSP recipients by referring them to existing community-based organizations, but not all recipients take up the offers. For example, WSF reported that fewer than 20 of about 80 high school first-year scholarship users went through the process to be assigned to mentors. A foundation provided tutoring services at two or three Archdiocese schools, and some OSP students took advantage of that. But it is important to note that members of the control group also had access to and availed themselves of these kinds of programs and services offered through their public schools or generally in their community. In fact, random assignment should have ensured that students in both the treatment and control groups were equally motivated to take advantage of the supplemental services available to them. For the upcoming second impact report, the evaluation team intends to estimate the impact of the program on participation in other services, but the availability of these services to both groups does not undermine the validity of the evaluation findings.

Thank you for the opportunity to provide a written response to the draft report. We strongly encourage GAO to consider the information provided in our July 26 submission and in this response when preparing the final report on the District of Columbia Opportunity Scholarship Program. Additionally, we think it would be very helpful if GAO provided Department officials the substantive meeting that we requested earlier. We feel that such a meeting will result in a thorough and balanced audit report that does not include apparent misunderstandings that we have noted above. In any event, as indicated, we will use the information in this report to continue to improve the Department's oversight of the program and its coordination with the D.C. State Superintendent's Office.

Sincerely,

  
Morgan S. Brown  
Assistant Deputy Secretary

# Appendix V: Comments from the Washington Scholarship Fund



October 23, 2007

Cornelia M. Ashby  
Director, Education, Workforce,  
and Income Security Issues  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Ms. Ashby:

Thank you for permitting the Washington Scholarship Fund (“WSF”) an opportunity to comment on the draft Government Accountability Office (the “GAO”) report entitled, “District of Columbia Opportunity Scholarship Program: Additional Policies and Procedures Would Improve Internal Controls, Program Operations, and Goal Attainment” (the “Draft Report”) – a copy of which was forwarded to WSF, under strict confidentiality requirements, on October 9, 2007. WSF appreciates the thoroughness of the Draft Report – and the GAO’s express acknowledgment that the Draft Report addresses what essentially was the “start-up” phase of the D.C. Opportunity Scholarship Program (the OSP). That is, the Draft Report provides, by apparent consensus, a “snapshot” of a program that experienced initial challenges, met them, and then thrived.

We are concerned, however, that the Draft Report does not present an accurate picture of the OSP’s great successes to date, and – from a strictly objective perspective – contains several factual errors and incorrect assumptions and conclusions [based at least in part on what might be an erroneous interpretation of the OSP’s federal authorizing statute (the “OSP Statute”)]. Further, the Draft Report focuses primarily on matters that, in the vast majority of instances, frankly bear little on the financial viability and effectiveness of the OSP. In fact, the Draft Report’s purported findings, emphases, and other points often have little to do with the matters proposed for the GAO audit by those requesting the audit in the first instance (or, for that matter, with the key objectives of the OSP Statute).

As has been widely reported – including by the U.S. Department of Education (the “DOE”) in its report released this past June – the extremely low-income families participating in the OSP over the past three-plus years have been overwhelmingly satisfied with the program and, more crucially, *with their chosen schools*. This evidence of parental satisfaction with the OSP is corroborated by a report released in May of this year by Georgetown University, which also found that OSP students are more engaged in their school work and have increased self-esteem, and that OSP parents are more involved with their children and their chosen schools. In fact, in its first three-plus years of operation, the OSP has fulfilled

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Appendix V: Comments from the Washington  
Scholarship Fund

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all of the key objectives of both the federal authorizing statute<sup>1</sup> and the Memorandum of Understanding (the "MOU") between the DOE and the District of Columbia (the terms of which largely do or should govern the school oversight matters on which the GAO so closely focuses in the Draft Report).<sup>2</sup>

Ultimately – with reference to what we understood to be the very rationale for the GAO's audit – we must emphasize that the Draft Report cites *absolutely no evidence* that federal OSP funds have been spent for anything other than genuine educational purposes at any time during the OSP's three-plus years of operation, or that OSP families have not received the educational services they sought through participation in the OSP. More directly – again, given the GAO's apparent focus – the GAO presents evidence that the financial or other instability of any school participating in the program has deprived any OSP family of the education they sought for their children through an exercise of meaningful educational choice. (To the contrary, and again, OSP families overwhelmingly are satisfied with their schools and their children's progress and growth in their schools of choice.)

WSF acknowledges that some of the GAO's observations and recommendations in the Draft Report (and even some of its findings) – particularly those relating to the implementation of the OSP during the program's challenging initial period of operation – are valid and useful. In fact, as the GAO is aware (and again, as the GAO has acknowledged), WSF already has taken many of the steps recommended by the GAO toward more efficient operation of the OSP. On this point, again worthy of great emphasis, and again as acknowledged by the GAO itself: *Even before the GAO initiated its year-long audit in September of 2006, WSF already had implemented many of the sorts of efficient and refined systems required to meet most of the GAO's recommendations.*

Certainly, WSF will continue to improve the OSP in our steadfast effort to make the program a more than viable option for District families seeking quality educations for their children. Naturally, toward this end, WSF looks forward to addressing and implementing the GAO's remaining findings and recommendations in close cooperation with both the DOE and the District of Columbia Government – both of which have been, and have committed to remaining, close and supportive partners of WSF in our continued successful implementation of the OSP.

We provide below a more detailed response to the GAO's Draft Report. In our response, we first review the questions posed to the GAO by Senators Kennedy and Durbin and Delegate Holmes Norton in their initial audit request to the GAO (*Section I*). We then provide our responses to the specific purported factual findings set forth by the GAO in the Draft Report (*Section II*). Finally, we set forth our response to the recommendations made by the GAO in the Draft Report (*Section III*).<sup>3</sup>

<sup>1</sup> More specifically, the OSP has served the District's lowest-income students; it has prioritized students coming from failing public schools as determined by federal No Child Left Behind Act criteria; and it has supported the rigorous evaluation of the OSP mandated by the federal authorizing statute.

<sup>2</sup> For example, among the primary points on which WSF disagrees with the GAO is the GAO's assumption that WSF should function as a "Super School Board" that subjectively determines the educational value of each school participating in the OSP. Such a role for WSF is permitted neither by the OSP Statute, nor by D.C. law, nor by any other applicable statute or regulation – and in any event, under any circumstances, would be wholly inappropriate.

<sup>3</sup> In the interests of economy and relevance, WSF will not attempt to respond to each and every factual, logical, or other error in the Draft Report. Rather, we focus in our response on those Draft Report inaccuracies and weaknesses that appear most likely to create a misleading impression about the overall functioning and success of the OSP, and that most require correction or attention in the public interest.

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**I. Questions Posed to the GAO, and Scope of the Resulting Audit/Investigation**

As stated in the Draft Report, the GAO was requested to answer/address three specific questions/matters (Draft Report, p. 2):

*To assess the implementation of the program, including the (1) accountability mechanisms in place governing the use of funds, (2) results of the grantee's efforts to meet the program's recruiting and eligibility requirements and inform parents about their choices, and (3) extent to which the evaluation reflects statutory requirements and the implementation of the program supported the detection of useful and generalizable findings.*

The GAO in its Draft Report has not addressed the results of WSF's efforts – and successes – in meeting the OSP Statute's priorities:

**1. *Give priority to students coming from schools identified for improvement***

In year one of the program, 29% of OSP scholarship recipients had been identified as having come from schools identified as in need of improvement ("SINI" schools) in 2003 or 2004. Only 4% were identified at the time of the initial lottery because the 2004 list of SINI schools was published after the independent federal evaluators, under the DOE's Institute of Educational Sciences' ("IES") (the "IES Evaluators"), held the first lottery on June 17, 2004. (The IES Evaluators described this situation in their first-year report on the OSP).

In the current 2007-2008 school year, 83% of students participating in the OSP would be in schools that have failed to meet adequate yearly progress if it was not for their OSP scholarships.

In the initial OSP lottery, the IES Evaluators – who designed and administered the lottery – gave priority to students in SINI schools. In year one of the OSP:

- 100% of eligible OSP applicants from a school needing improvement received a scholarship;
- 2 out of 3 eligible students from public schools in grades 6 to 8 received a scholarship; and
- 3 out of 10 eligible students from public schools in grades 9-12 received a scholarship.

**2. *Target resources to families that lack the financial resources to take advantage of available educational options***

- Nearly 20% of eligible District students have applied for OSP scholarships in the program's first four years of operation.

**3. *Provide students with the widest range of educational options***

- The GAO itself reports that 78 of the 86 non-public schools in the District (80%) participate in the OSP.

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**II. WSF's Responses to the GAO's Purported Factual Findings**

In this section, WSF will state the GAO's purported factual findings (numbered and in *bold italics*), and then, *seriatim*, will set forth our responses to those purported findings.

**1. GAO Purported Finding: WSF's internal controls policies and procedures and systems did not provide adequate accountability over the use of grant funds**

WSF acknowledges that during the initial start-up of the OSP, WSF's internal control policies and procedures, systems, and internal control activities were not optimal, including:

- Several procedures and electronic systems that relied on manual data transfers, increasing the risk of human error; and
- Policies and procedures which were not documented in detail.

As the GAO notes (Draft Report, pp. 12 and 14), "Due to the need to quickly implement the program, WSF had little time to develop internal control policies and procedures, systems, and internal control activities," and "had to rely on the knowledge of key staff to perform daily operations." The demands placed on WSF and our staff in attempting to get the OSP up and running – within five months of the date WSF was appointed the administrator of the OSP and the first day of the then-upcoming (2004-2005) – were enormous. As the OSP includes many characteristics unique and innovative to scholarship programs, WSF's policies, procedures and systems evolved as the program matured. This learning curve made documenting policies and procedures as they evolved nearly impossible. In addition, the limited operating funds provided under the OSP Statute – which provide only about 16% of the actual cost of operating the OSP and serving our students and families – did not afford WSF the staff resources necessary to both create and implement the program, *and* to document our efforts simultaneously during the 14-month launch period. Indeed, WSF has been required to raise substantial private funding in order effectively to operate the OSP.

WSF is appreciative of the GAO's recognition that WSF has already made major improvements in these areas, having made significant financial investments in systems and infrastructure improvements in advance of the request to GAO for the program review. To date, WSF has nearly completed the full electronic and real-time integration of its data (already operational) and financial systems (launching November 1, 2007). The appropriate detailed policies and procedures will be finalized once tandem financial systems have been in operation for two months (January 2008).

Further, WSF welcomes the GAO's suggestions for additional operational improvements as set forth on pages 17-18 of the Draft Report concerning revisions to its *Internal Systems Review*, and will adopt those suggestions.

**2. GAO Purported Finding: As a result of the manual and disparate policies, procedures and systems, some payments were not made in accordance with the act, while others raise questions about compliance**

While WSF agrees that the deficiencies in internal controls and accountability mechanisms increased the risk of errors, WSF firmly represents that no federal monies were spent irresponsibly or

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improperly used for purposes other than OSP scholarships. The GAO specifies three areas where it believes that the lack of internal control mechanisms resulted in errors in the use of federal appropriations (pp. 12 & 21):

(a) WSF's payment of scholarships for schools that are "scholarship-only"

Payment of scholarships for schools which GAO identifies as "scholarship-only" was a result of considered choices, not a result of any lack of internal control mechanisms. WSF believes that this choice is in complete accord with the OSP Statute.

Three participating OSP schools (Washington Middle School for Girls, San Miguel, and Washington Jesuit Academy) are "scholarship-only" schools – that is, the educational costs for all of the children who attend those schools are paid for by scholarships funded by third-party donors. GAO contends that allowing OSP scholarships to be used for these programs violates Section 307(a) of the Act, D.C. Code § 38-1851.06(a)(1), which provides in part that:

*Each grantee shall ensure that the amount of any tuition or fees charged by a school participating in the grantee's program under this chapter to an eligible student participating in the program does not exceed the amount of tuition or fees that the school customarily charges to students who do not participate in the program.*

WSF respectfully submits that the GAO's reading of this provision is legally incorrect. GAO's premise is that if a student receives a scholarship to a school and thus does not personally pay tuition, then allowing any use of OSP funds for that school would not be permissible because non-scholarship students "pay no tuition." But this argument cannot be what Congress intended, since virtually all schools that participate in the OSP provide scholarships to some students. GAO's reading of Section 307(a)(1) would mean that students who receive scholarships at other schools are viewed as "paying tuition" for purposes of Section 307(a)(1). **There is no logical or legal basis for applying a different standard to students attending the three "all-scholarship" schools receiving non-OSP funding than the standard applied to students receiving non-OSP assistance attending any other participating school.**

The purpose of Section 307(a)(1) is to prevent a school from "overcharging" OSP students – a concern that is absent in the "all-scholarship" situation. In the cases of the above-cited schools, the simple fact is that tuition is not normally paid by the families, but by other sources similar to OSP scholarships. In fact, the above-cited schools list tuition amounts for donors and on their websites and in other materials readily available to the public. As with most other participating OSP schools, those published tuitions are below the actual costs of serving the students in those schools.

While the Draft Report does not specify the reasoning behind the GAO's objection to allowing OSP scholarships at the "all-scholarship" schools, the draft report refers to these schools as "free." This reflects a misunderstanding of the way these schools operate. They are not, in fact, "free" but require money to operate which they collect from public sources and private donors. If OSP students did not have OSP scholarships to fund their educations at these schools, those student could not attend unless other donors stepped

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up, diverting funds from a non-OSP student. In other words, OSP scholarships provide the resources for these schools to educate additional children (*i.e.*, the OSP students). WSF does not believe that it would discharge – and indeed would defy – its statutory responsibility if it disqualified these three schools from participation in the OSP simply because all of these schools’ students receive scholarships.

In addition, the GAO states that by listing the published tuitions for these three schools in the WSF School Directory, parents are misled to believe that they could not attend/afford those schools if they did not have an OSP scholarship. As OSP families are provided a copy of the WSF School Directory when they have completed their initial application for an OSP scholarship, however, this could not logically affect a family’s decision to apply.

(b) WSF allowing scholarship funds to be used for after-school programs without demanding proof of “academic support activities”

Again, WSF notes that this represents a considered choice by WSF in its implementation of the OSP – not any lack of internal control mechanisms. WSF believes that this choice was and remains fully in accordance with the OSP Statute.<sup>4</sup> School fees are defined under the OSP Statute as “fees charged by the school that the student is enrolled in,” and “are charged at the same rate as non-OSP students” – in contrast to the GAO’s own definition, which does not comport with the governing federal statute.

WSF permits the use of OSP scholarship funds for before- and after-school programs that are offered to other, non-OSP students at participating schools. The GAO states (Draft Report, p. 12) that a “key” element of an allowable fee under the OSP Statute and WSF policy is that the fee is “tied to the student’s academic program.” The GAO further states (Draft Report, p. 21) that unless there is proof that these programs “included any academic support activities,” then “before-and-after care would not meet the requirement that a fee must contribute to a student’s academic success.”

WSF respectfully submits that the GAO appears to have misunderstood and, therefore, misstated WSF’s policy for school fees (as well as the OSP Statute’s mandate). School fees are defined as those that *support* the academic success of the student. WSF vigorously disagrees with the GAO’s conclusion that there must be formal “academic support activities” in order for before- and after-school programs to contribute to students’ success. Many studies have shown that before-school and after-school programs play an important role in student academic success by providing a supportive and supervised environment. For example:

<sup>4</sup> Thus, WSF does not believe that these two legal issues are within the scope of the inquiry requested by the Members of Congress into “accountability mechanisms.”

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**Research Findings: Studies on the Effects of After-School Programs on Students' Academic  
Success and Social Integration**

Researchers	Findings	Study
Dr. Joseph Mahoney and Dr. Heather Lord, Yale University	"Children characterized by the After-School Program (ASP) care arrangement showed significantly higher reading achievement at the end of the school year compared with children in all other patterns of after-school care [e.g. relatives] and were rated by teachers as holding greater expectancies of success compared with children in the other adult/non-adult care pattern."	An Ecological Analysis of After-School Program Participation and the Development of Academic Performance and Motivational Attributes for Disadvantaged Children.
Erica Carryl, New York University	"The finding supports a conclusion that among the typical after-school care arrangements poor children experience, ASPs appear unique in their ability to promote academic-related success."	Published in 2005 by the Society for Research in Development, Inc.

(c) Certain alleged paperwork errors in the sample of scholarship files reviewed by the GAO caused OSP funds to be spent that were not in accordance with the Act

WSF believes that the deficiencies noted are minor in nature, and do not indicate substantive problems with the disbursement of federal funds.

The GAO reviewed a sample of 50 student files for the 2005-2006 school year, and asserts (Draft Report, pp. 19-20) that it found certain deficiencies in the files: (i) Missing signatures or dates on fee approval forms; (ii) missing documents, such as school placement letters; and (iii) missing student identifier numbers. WSF has not been provided with the specifics of these alleged deficiencies and thus cannot respond in detail. WSF notes, however, that most of the alleged deficiencies are non-substantive (*e.g.*, missing dates, missing student identifier numbers) and do not reflect erroneous distribution of federal funds.

The GAO does indicate that it found one instance of payment of a fee that was not listed on the payment detail report, and one instance of a payment made on the basis of a payment detail report that had not been certified by a school official. Again, WSF does not know the details of these two situations, or the dollar amounts involved – but regardless, and again, these situations under any objective analysis must be considered only minor clerical oversights.

WSF also would submit that the incidence of error is inflated by the GAO's counting a missing signature on one fee form as 20 errors if the fee was charged to 20 students' scholarships.

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3. *GAO Purported Finding: While OSP students generally met the program's eligibility requirements, WSF (a) had limited success in meeting recruiting priorities and (b) did not provide parents complete information*

(a) Recruiting priorities

WSF shares the concerns about outreach to District students in "schools in need of improvement," and certainly has sought assiduously throughout the first three-plus years of OSP implementation to prioritize students coming from failing schools. But given the newness of the No Child Left Behind Act at the time of the OSP's initiation in 2004, and the timing of the program's implementation with respect to testing requirements in the District, no school could have been identified as "in need of improvement" by the time the IES Evaluators needed to perform the first OSP lottery (it takes two years of a school failing to meet "adequate yearly progress" for the school to be identified as "in need of improvement").

The IES Evaluators' report on the OSP for the first year of the OSP identifies this challenge, and provides data showing that 29% of OSP applicants for the 2004-2005 school year were enrolled the year before in SINI schools.

With respect to the analysis in the Draft Report, WSF notes that it cannot be determined from the data set forth whether students from SINI schools are in fact under-represented among OSP students. As noted by the GAO, the great majority of OSP students are at the elementary school level, and the percentage of D.C. elementary school students who are enrolled in SINI schools is much lower than the percentage of D.C. middle school and high school students who are enrolled in SINI schools (Draft Report p. 26). Yet when the GAO compares the percentage of OSP students from SINI schools to the overall percentage of students from SINI schools, it erroneously uses as its benchmark *all* D.C. students, rather than performing a grade-by-grade comparison. This "apples versus oranges" methodology skews the results toward finding an under-representation of SINI students in the OSP, when a more appropriate grade-by-grade comparison might show very different results.

WSF also submits that the OSP Statute sets forth *no* specific student recruiting requirements. In fact, the only provision in the OSP Statute relating to such matters is contained in Section 305(b)(1)(G), which requires the grantee [WSF] to address how it will "seek out private elementary schools and secondary schools in the District of Columbia."

(b) Alleged failure of WSF to perform its financial oversight role

WSF's limited oversight role is defined by Section 305(b)(1)(H) of the OSP Statute, which requires WSF to ensure that "participating schools are financially responsible and will use the funds received under [the OSP Statute] effectively." Based on an unsubstantiated and vague assertion that "certain documents" were missing from files reviewed by GAO staffers, the GAO concludes that WSF "did not fulfill its oversight role of ensuring that participating schools are financially stable" (Draft Report, p. 32).<sup>5</sup>

<sup>5</sup> It is not clear as to which part of the Congressional audit request the GAO's discussion of this issue is responsive.

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WSF first must note that the GAO's unfounded conclusion rests on a misinterpretation of the OSP Statute. The OSP Statute, as cited above, requires WSF to determine the "financial responsibility" of schools, not to "ensure" their "financial stability" (which obviously would be impossible for WSF to do).

In any event, WSF emphatically disagrees with any conclusion that it has not performed its statutorily-prescribed oversight function. WSF requires the submission of financial information from every school; based on those documents and certain statistical "triggers" (such as high rates of students choosing to leave a school), WSF undertakes more thorough financial reviews of individual schools in cases where it appears that financial problems might exist. As a result of such financial reviews, WSF has disqualified one school from further participation in the program, and has placed two other schools on a "pay-as-you-go" basis, whereby these two schools receive federal funds only *after* they have provided educational services. **As a result of these careful financial reviews by WSF, not a single dollar of federal funds has gone to a school unable to provide the educational services for which federal scholarship funds were spent.**

In addition, despite what the GAO seems to suggest, WSF is unclear as to the ability of a school's clean audit to ensure that the school will be an ongoing enterprise beyond a given school year. A financial audit indicates only that an organization has represented its financial statements fairly and accurately, and has used industry approved standards; a clean audit by no means "ensures financial stability."

**4. GAO Purported Finding: Alleged failure of WSF to ensure that schools have "certificates of occupancy" and have supplied information to the District about their instructional programs**

The GAO asserts in the Draft Report (p. 33) that WSF shares in the responsibility for ensuring that private schools are "operating lawfully" in the District of Columbia. WSF disagrees with this conclusion. WSF does not have the authority to enforce District of Columbia law; nor, for that matter, does WSF have the resources or the expertise to duplicate the functions of the DOE and/or the District Government. WSF does, of course, look forward to continuing the very productive relationships it has forged with the DOE and the District, and to coordinating on better ways to communicate regarding the status of District non-public schools participating in the OSP.

Further, WSF is concerned by the GAO's assertion that the GAO's inability to locate two schools' certificates of occupancy is an indication that certain schools researched by the GAO may not be operating legally (Draft Report, pp.8 and 33-34).

Better perspective suggests that this likely may be a matter of deficiencies in the recordkeeping concerning certificates of occupancy and annual reports required by the D.C. compulsory school attendance regulations. Tellingly, there is no indication in the Draft Report that the GAO checked directly with the schools to determine whether they had been issued certificates of occupancy. In fact, *The Washington Post* noted on Sunday, October 21, 2007, that Pecco and Verizon will not start power or phone services for a school until the D.C. Department of Consumer and Regulatory Affairs has issued a certificate of occupancy. See David Nicholson, "D.C.'s Learning Curve," *Washington Post*, page B4 (October 21, 2007).

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Indeed – as concrete support of the notion that many of the issues broached by the GAO have more to do with recordkeeping than with legality – WSF is pleased to report that we have located a certificate of occupancy for one of the schools (Academy De La Recta Porta, “ADLRP”) referenced in the Draft Report. This certificate clearly indicates that the space used by ADLRP is approved for educational use. (The referenced certificate of occupancy is attached hereto as an Addendum.) It is apparent that the GAO was unable to locate ADLRP’s certificate of occupancy because the certificate was filed under the name of the church that runs the school (New Dimensions Kingdom Ministries) rather than under the name of the school itself. WSF located the ADLRP certificate of occupancy simply by telephoning ADLRP’s principal, who then forwarded the certificate to WSF via facsimile within ten minutes of the phone call.

**5. *GAO Purported Finding: Allegation that WSF did not provide parents with “complete information” about participating schools***

The GAO asserts that WSF provided parents with incomplete and incorrect information about participating schools (Draft Report, pp. 35-36). WSF concurs that some typographical errors existed in the WSF School Directory, and will engage in additional proofing upon the next publication of the directory. WSF does not, however, regard this directory as the sole or even primary tool used by parents in reviewing their educational options. In fact, WSF strongly encourages families to visit any school to which they intend to apply, and to talk to other families about their experiences in those schools.

WSF understands that the GAO suggests that participating schools are obligated to publish information concerning the academic achievements of their students and that WSF should disseminate this information to parents. The OSP Statute, under Section 310(e), appropriately assigns to participating schools the responsibility of reporting to individual parents about the performance of students and school safety.

As the GAO acknowledges, WSF provides parents with information on enrolled students’ academic achievement, as measured by a comparison with the aggregate academic achievement of other students at the student’s school in the same grade or level on an annual basis. Further, WSF follows up with each participating school at the end of each school year and receives certification that each school provided the required information.

**6. *GAO Purported Finding: Evaluation contractors adopted a strong methodology, but program implementation and other factors limited the usefulness and generalizability of findings***

For the most part, WSF will not respond to the GAO’s findings in this section of the Draft Report, believing that these statistical issues are best left to the DOE and the IES Evaluators.

WSF is compelled, however, to comment on the Draft Report’s possible implication that WSF somehow acted improperly by implementing decisions that were “made to advance program goals,” because these steps made statistical assessment of the program’s results more complex (Draft Report, p. 44). WSF was instructed directly by the IES Evaluators in any matters that might affect the evaluation, and in fact the IES Evaluators themselves structured and implemented the lotteries through which the study has been populated.

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Regrettably, the GAO wholly omits from its Draft Report any discussion of these indicators and other evidence clearly showing the success of the program.

**III. WSF's Responses to the GAO's "Recommendations for Executive Action"**

**1. *Establish and implement policies and procedures to improve financial controls over OSP grant funds, including specific requirements for the process of approving scholarship payments and documentation of the process***

As acknowledged in the Draft Report, and as discussed in this response, WSF is well underway in implementing many of the recommended improvements to the program systems identified by the GAO. WSF will complete its policies and procedures manual once this implementation is completed.

WSF has received a clean opinion in all three A-133 audits performed since the OSP was implemented, and expects once again to receive a clean opinion in its 2006-2007 audit, currently underway.

**2. *Establish compensating controls, such as supervisory review, to reduce the risk of fraud in situations where segregation of duties is not possible due to the size limitations of OSP's staff so that no one employee can authorize, process, review, and have access to the funds relating to OSP***

Again, as acknowledged in the Draft Report, and as discussed in this response, WSF is well underway in implementing the improvements recommended by the GAO, and compensating controls and access to financial management systems.

**3. *Continue its efforts to implement an integrated financial management system to facilitate processing and recording of scholarship payments and overall financial reporting***

As acknowledged in the Draft Report, and as discussed in this response, WSF is well underway in implementing many of the recommended improvements to the program systems identified by the GAO. WSF will finalize its policies and procedures manual once this implementation is completed.

As noted above, WSF has received a clean opinion in all three A-133 audits performed since the OSP was implemented, and expects once again to receive a clean opinion in its 2006-2007 audit, currently underway.

**4. *Develop and implement procedures for conducting site visits, including that site visit reports be prepared to contain information on the overall financial stability of the school***

WSF does not have the resources to perform a financial analysis "on the overall financial stability" of every school participating in the OSP, nor does WSF have the resources to visit every participating OSP school every year.

WSF does look forward to continuing our very close and productive relationships with the DOE and the District Government to find ways to provide more robust information about schools and options

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to families. In addition, WSF will expand its documentation of the school visits that are performed throughout the year. WSF provided the GAO with a list of 42 school visits performed in the 2005-2006 school year, including the dates of the visits and the names of the WSF staff attending the visits; however, the GAO puzzlingly reported that WSF did not provide evidence of those visits.

**5. *Develop procedures to ensure that accurate information is provided to parents before a school is chosen about the summary achievement data of students, teacher qualifications, and tuition levels, and that schools make such information available on an annual basis to parents of enrolled students***

WSF will re-evaluate the methodology by which school information is collected. Schools are required to report summary achievement data to families of enrolled students so that families can gauge their children's progress. WSF asserts that this is an appropriate forum through which to provide families with this information.

WSF, as the administrator of a federal program, has no expertise in evaluating the results of testing data, or in evaluating such data as between schools.

In addition, it requires intimate knowledge of each student to identify a productive school-student match. WSF has found that the best such matches are made when families, students, and schools work together directly.

WSF will continue to work with the DOE and the District to provide OSP families access to the resources that will assist parents in making the most informed, and best possible, educational choices for their children.

Again, the Washington Scholarship Fund appreciates this opportunity to respond to the GAO's Draft Report. Naturally, we welcome any questions or comments the GAO might have regarding our responsive commentary.

Sincerely,



Gregory M. Cork  
President and CEO  
*The Washington Scholarship Fund*

ADDENDUM

Appendix V: Comments from the Washington  
Scholarship Fund

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# Appendix VI: Contacts and Staff

## Acknowledgment

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### GAO Contacts

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### Acknowledgments

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Financial Management and Assurance Team: Norma Samuel, Assistant Director; Sandra Silzer, Analyst in Charge; Nicole McGuire, Analyst; and Maxine Hattery, Communication Analyst.

In addition, Jean McSween, Karen O'Connor, and Anna Maria Ortiz advised on methodological and statistical aspects of this report; Cynthia Grant performed the data analyses; and Jessica Botsford, Abe Dymond, Doreen Feldman, and Jacqueline Hamilton advised on legal aspects.

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*Public Schools: Comparisons of Achievement Results for Students Attending Privately Managed and Traditional Schools in Six Cities.* [GAO-04-62](#). Washington, D.C.: October 29, 2003.

*School Vouchers: Characteristics of Privately Funded Programs.* [GAO-02-752](#). Washington, D.C.: September 10, 2002.

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