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K-12 EDUCATION

Internal Controls for Program Management and Oversight Can Help Ensure the Success of School Choice Programs

Statement of the Record of Jacqueline M. Nowicki,
Director, Education, Workforce, and Income Security

Chairman Johnson, Ranking Member Carper, and Members of the Committee:

I am pleased to submit this statement on how lessons learned from the District of Columbia Opportunity Scholarship Program (OSP)—the only federally funded kindergarten-through-grade-12 private school choice program in the United States—could strengthen this or any similar federally funded voucher program in the future. Students and families in the District of Columbia (District) may choose among a variety of public and private options for their K-12 education. According to data from the Department of Education (Education), 41 percent of the District’s approximately 78,000 public school students attended charter schools, 5 percent attended magnet schools, and 51 percent attended traditional public schools in the 2013-2014 school year.¹ In addition to the District’s public school choice options, District students may be eligible for OSP’s annual scholarships that allow students to attend participating private elementary or secondary schools of their choice. According to the OSP Web site, 1,660 students attended private schools under this program in school year 2013-2014. Since the program’s inception, Congress has provided more than \$180 million for OSP, according to Education. These funds have, in turn, awarded over 6,100 scholarships to students who would likely not have the resources to attend private school.

The Secretary of Education and the Mayor of the District of Columbia have a memorandum of understanding (MOU) that delineates responsibilities for implementing OSP. According to the MOU, Education is responsible for working with the OSP administrator—an entity funded by a grant from Education—to improve certain aspects of administration.² In addition, the MOU states that District agencies are directly responsible for conducting required inspections of participating schools when notified by the OSP administrator.

¹ The remaining 3 percent attended other types of public schools, such as special education, vocational education, or alternative schools.

² At the time of our review, the OSP administrator was the DC Children and Youth Investment Trust Corporation. In August 2015, Education named Serving Our Children—a District-based nonprofit organization—as the OSP administrator. As our recommendations are relevant to any entity administering OSP, we refer to that entity as “OSP administrator” or “OSP” throughout this statement.

School voucher programs are gaining in popularity across the country. In addition to DC's federally funded OSP, 10 states currently operate state-funded school voucher programs.³ Further, Congress has considered creating a national school voucher program in recent years. Given these developments, this statement discusses the importance of proper management and oversight of these programs to ensure they are implemented effectively and provide accountability over public funds.

This statement is based on a GAO report released in 2013, titled *District of Columbia Opportunity Scholarship Program: Actions Needed to Address Weaknesses in Administration and Oversight*.⁴ This report responded to a request from the Chairman of the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate for GAO to assess the extent to which the OSP administrator was meeting its stated goals and properly managing federal funds.⁵ In the report, we examined (1) the extent to which the OSP administrator provides information that enables families to make informed school choices, (2) whether OSP's internal controls ensure accountability, and (3) how Education and District agencies responsible for overseeing OSP have performed their stated roles and responsibilities.

To address these objectives, we analyzed key documents regarding participating schools and OSP that were available to parents. We visited 10 of the 53 participating private schools and interviewed key officials. We

³ The 10 states are Florida, Georgia, Indiana, Louisiana, Mississippi, North Carolina, Ohio, Oklahoma, Utah, and Wisconsin. In addition, there are other types of state-funded private school choice programs operating in states—tax-credit scholarships, individual tax credits and deductions, and education savings accounts.

⁴ GAO, *District of Columbia Opportunity Scholarship Program: Actions Needed to Address Weaknesses in Administration and Oversight*, [GAO-13-805](#) (Washington, D.C.: Sept. 30, 2013).

⁵ In response to a similar previous request, we issued a report assessing OSP implementation and found that the OSP administrator did not have the capacity to oversee participating private schools and administer a growing scholarship program funded with federal dollars. We also found that because of inadequate accountability mechanisms, the program administrator could not provide key information to low-income families about school performance. We made eight recommendations to Education, and all but one was closed as implemented. See GAO, *District of Columbia Opportunity Scholarship Program: Additional Policies and Procedures Would Improve Internal Controls and Program Operations*, [GAO-08-9](#) (Washington, D.C.: Nov. 1, 2007).

selected the schools based on the highest number and concentration of OSP students given the total enrollment at the school in the 2011-2012 school year. We also conducted two discussion groups with families of students who received and used an OSP scholarship in the 2012-2013 school year. We analyzed OSP's administrative database, and assessed the reliability of enrollment data for selected years from the database. We found the data to be sufficiently reliable for the purposes of determining characteristics of OSP schools and students. In addition, we reviewed relevant federal laws and regulations and internal OSP documents, and interviewed officials representing OSP, Education, and select District agencies. The report contains a detailed description of our scope and methodology. The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In our 2013 review of OSP, most families we spoke with were generally happy with their children's participation in the program, citing increased safety and security at their children's OSP schools and improved quality of education. However, we found weaknesses in three areas—access to complete and timely program and award information, effective controls to safeguard federal funds, and clearly defined and properly executed roles and responsibilities—that are the result of internal control deficiencies that may limit the effectiveness of OSP and its ability to meet its goal of providing a quality educational experience for students in the District. Strong internal controls in these areas would strengthen the OSP and are, we believe, critical to the success of any similar federally funded school voucher program.

Effective internal control is a major part of managing any organization to achieve desired outcomes and manage risk. Internal control is broadly defined as a process designed to provide reasonable assurance that an organization can achieve its objectives. It includes management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; compliance with laws and regulations; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. Five internal control standards—control environment, risk assessment, control activities, information and communication, and monitoring—apply to all aspects of an organization's operations and

should be an integral part of a system that managers use to regulate and guide an organization or program's operations.⁶

Access to Complete and Timely Program and Award Information

Families of OSP scholarship award recipients, as consumers, need complete and timely information about participating schools to make informed decisions about what school is best for the student. Further, federal internal control standards state that organizations must have relevant, reliable, and timely communications, and adequate means of communicating with external parties who may have an impact on the organization achieving its goals. During our 2013 review, we found that OSP provided information to prospective and current OSP families through a variety of outreach activities. However, families lacked key information necessary to make informed decisions about school choice because the directory of participating schools—a key communication tool—was not published in a timely fashion and did not contain key information about tuition, fees, and accreditation. Additionally, scholarships to students were awarded several months after many schools had completed their admissions and enrollment processes, limiting the amount of time and choice in selecting schools. To address these issues, we recommended that Education take steps to ensure that the OSP administrator improve the timing of key aspects of program administration and program information for prospective and participating families. In late October 2015, Education described to us actions that had been taken to address these issues. For example, Education stated that the OSP administrator published its school directory in a timely manner in 2013 and 2014.⁷ The SOAR Reauthorization Act, which recently passed

⁶ In 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. It includes the five key internal control elements, which are intended to promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial reports and compliance with laws and regulations. Since that time, COSO's internal control framework has been recognized by regulatory standards setters and others as a comprehensive framework for evaluating internal control. Federal internal control standards (see GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#), Washington, D.C., September 2014) are consistent with COSO's internal control framework. We used COSO's standards to assess the Trust because the COSO framework applies to nonprofit entities.

⁷ Although Education stated that they had addressed the issues, they did not provide documentation of how the recommendations were implemented. As a result, we were unable to assess the extent to which they had implemented our recommendations in time for this statement.

in the House and has been introduced in the Senate, includes provisions to address accreditation of participating schools.⁸

Effective Controls to Safeguard Federal Funds

Effective policies and procedures: During our 2013 review, we found that OSP's policies and procedures lacked detail in several areas related to school compliance and financial accounting, which may weaken overall accountability for program funds. Policies and procedures are a central part of control activities and help ensure necessary actions are taken to address risks to achievement of an organization's objectives. The absence of detailed policies and procedures reflect weak internal control in the areas of risk assessment, control activities, information and communication, and control environment. For example, we found that OSP relied on schools' self-reported information to ensure school compliance and did not have a process for independently verifying information, such as a school's student academic performance, safety, and maintenance of a valid certificate of occupancy. Without a mechanism or procedures to verify the accuracy of the information provided, OSP cannot provide reasonable assurance that participating schools meet the criteria established for participation in the program. As a result, there is a risk that federal dollars will be provided for students to attend schools that do not meet the education and health and safety standards required by the District.

Further, at the time of our review, OSP's policies and procedures lacked sufficient detail to ensure each participating school in OSP has the financial systems, controls, policies, and procedures in place to ensure federal funds were used according to federal law. OSP's policies and procedures for the financial stability review of participating schools did not identify the specific risk factors that should be considered when assessing schools' financial sustainability information. As a result, the OSP administrator was unable to confirm that all schools participating in the program were financially sustainable. In addition, OSP lacked detailed policies and procedures for dealing with schools not in compliance with program rules. Furthermore, policies and procedures for fiscal years 2010 through 2012 did not specify how to track administrative expenses, including what should be included, and OSP had little documentation to support administrative expenses incurred during these years. Therefore,

⁸H.R. 10, 114th Cong. § 6(b) (2015).

while federal law limits the administrative expenses to 3 percent of the annual grant amount, the true cost of administering the OSP program during these years is not known and could be higher or lower than the 3 percent allotted.

Without sufficiently detailed policies and procedures for all aspects of a school choice program, the program administrator cannot effectively monitor program operation and may not be able to account for all federal or public dollars spent. To address these issues, we recommended Education require the OSP program administrator to add additional detail to their policies and procedures to more efficiently manage day-to-day program operations. OSP amended its policies and procedures in August 2013 which addressed some of these issues, but OSP did not address all of the weaknesses described and the policies and procedures had not been fully implemented at the time of our review. In addition, in late October 2015, Education described to us actions that they had taken to address these issues. For example, Education stated that its Office of Risk Management Services provided feedback on the OSP administrator's internal policies and procedures.⁹ The SOAR Reauthorization Act recently passed by the House and introduced in the Senate includes a provision to address how the program administrator will ensure that it uses internal fiscal and quality controls for OSP.¹⁰

Accurate, Up-to-Date Student Information: According to the internal controls framework, information should be communicated to management and within an organization in a form and time frame that enables officials to carry out their responsibilities and determine whether they are meeting their stated objectives. For example, in OSP—and other eligibility-based choice programs—it is important to have accurate, up-to-date student application information in order to meet program objectives, such as determining eligibility and awarding program scholarships in an efficient and timely manner. However, at the time of our 2013 review OSP's database containing past and current student and school information had several weaknesses, including a lack of documentation and automated

⁹Although Education stated that they had addressed the issues, they did not provide documentation of how the recommendations were implemented. As a result, we were unable to assess the extent to which they had implemented our recommendations in time for this statement.

¹⁰H.R. 10, 114th Cong. § 4 (2015).

checks, and a deficient structure, which left the database open to errors. For example, there were many records with missing fields and data that were partially entered, and the database did not have automated data checks, which would reduce the risk that significant errors could occur and remain undetected and uncorrected. We found these deficiencies also negatively affected day-to-day program management, and impeded efforts to communicate information about the program to families and Education. In addition, the database's current structure hampers OSP's ability to look at historical trends and use them as an effective management tool. We also found incomplete records from past years which will continue to be a problem for future program administrators who need them for effective program implementation and oversight. In addition, because a key variable in the OSP database used in the student selection process was unreliably populated, OSP's ability to accurately select students based on established priorities for the program may have been compromised. To address issues with the database, we recommended Education have the program administrator improve the program database to provide reasonable assurance that there is sufficiently reliable data regarding the operation of OSP. In late October 2015, Education stated that OSP did not have the capacity or financial resources to update the database and Education could not require them to make the suggested updates. As noted above, the SOAR Reauthorization Act recently passed by the House and introduced in the Senate includes a provision intended to ensure the entity uses internal fiscal and quality controls for OSP.

Timely Financial Reporting: Reliable published financial statements, such as those required by the Single Audit Act, are needed to meet program requirements and to ensure federal funds are being used appropriately. The Single Audit Act requires that recipients submit their Single Audit reports to the federal government no later than 9 months after the end of the period being audited.¹¹ However, the required audit documents for the year ended Sept. 30, 2010 were issued by the program administrator on Jan. 31, 2013—more than 2 years after the end of its

¹¹The Single Audit Act, as amended, requires each reporting entity that expends \$500,000 or more in federal awards, including grants and other assistance, in a fiscal year to obtain an annual single organizational audit from an independent auditor. This includes an audit of the entity's financial statements and its schedule of the expenditure of federal awards, as well as a review of related internal controls and the recipient's compliance with the laws and regulations governing the federal financial assistance received. For audits of fiscal years beginning on or after December 26, 2014, the threshold increased to \$750,000.

2010 fiscal year. As a result, until these reports were issued Education did not have the financial reports required to properly account for the federal funds expended for OSP. To address these issues we recommended Education explore ways to improve monitoring and oversight of the program administrator. In 2014, Education stated that OSP was current with all required financial audits and provided documentation that, OSP's 2014 Grant Award Notification imposed a special condition due to OSP's history of untimely financial reporting. Specifically, the award notification stated that Education could impose sanctions, such as withholding a percentage of or entirely suspending federal awards, if OSP fails to submit a timely financial audit or written explanation.

Proper Execution of Roles and Responsibilities

Internal control activities help ensure that actions are taken to address risks, and include a wide range of activities such as approvals, authorizations, and verifications. According to the MOU between Education and the District, the District is responsible for conducting regulatory inspections of participating schools and providing the administrator with the results of those inspections. However, we found that requirements under the MOU were not being met. For example, inspections of participating private schools were often not conducted. For our 2013 report, OSP told us they did not receive any information from the District as a result of any inspections, nor did the administrator follow up with District agencies to inquire about them. Given that the program administrator is responsible for ensuring that participating schools continue to be eligible to receive federal dollars through OSP, notifying the District agencies about inspections is important in ensuring appropriate oversight of participating schools. The MOU includes a responsibility for the program administrator to notify District agencies to conduct these inspections, but because the program administrator is not a signatory to the MOU, OSP officials were not fully aware of this responsibility, they said. As a result, activities crucial to the successful implementation of the program—such as building, zoning, health, and safety inspections—may not be occurring for all participating schools. To address these issues, we recommended Education work with the Mayor of the District of Columbia to revise the MOU that governs OSP implementation to include processes that ensure the results of OSP school inspections are communicated to the program administrator. In late October 2015, Education described to us actions that they had taken to address these issues. For example, Education stated that it ensured that the OSP administrator informed the appropriate District agency of the names of the participating schools for the purpose of conducting required

inspections.¹² The SOAR Reauthorization Act recently passed by the House and introduced in the Senate includes provisions that require Education and the District to revise their MOU to, among other things, address some of these issues.¹³

In conclusion, OSP has provided low-income families in the District additional choices for educating their children and has likely made private school accessible to some of these children who would not otherwise have had access. However, to help ensure that OSP efficiently and effectively uses federal funds for their intended purpose—that is, to provide increased opportunities to low-income parents to send their children, particularly those attending low-performing schools¹⁴, to private schools—any entity responsible for operating a school choice program such as OSP needs a strong accountability infrastructure that incorporates the elements of internal control discussed above. Well-designed and executed operational and financial management policies and procedures and the underlying systems help provide reasonable assurance that federal funds are being used for the purposes intended and that funds are safeguarded against loss from error, abuse, and fraud. Education stated that they had addressed some of the issues that we identified, but we were unable to assess the extent to which they had implemented our recommendations in time for this statement. We continue to believe that by fully addressing our nine remaining recommendations for the OSP program, Education would promote more efficient and effective program implementation and accountability over federal funds, regardless of which entity is administering the program.

Mr. Chairman Johnson, Ranking Member Carper, and Members of the Committee, this concludes my statement for the record. If you or your staff have any questions about this statement, please contact Jacqueline M. Nowicki at (617) 788-0580. You may also reach me by email at

¹² Although Education stated that they had addressed the issues, they did not provide documentation of how the recommendations were implemented. As a result, we were unable to assess the extent to which they had implemented our recommendations in time for this statement.

¹³ H.R. 10, 114th Cong. § 9 (2015).

¹⁴ Low-performing schools refers to schools identified as in need of improvement, corrective action, or restructuring under the Elementary and Secondary Education Act of 1965, as amended.

nowickij@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this statement include Nagla'a El-Hodiri (Assistant Director), Jamila Jones Kennedy, and Michelle Loutoo Wilson. In addition, key support was provided by Susan Aschoff, William Colvin, Julianne Cutts, Alexander Galuten, Gretta L. Goodwin, Sheila McCoy, Kimberly McGatlin, Jean McSween, John Mingus, Linda Siegel, Deborah Signer, and Jill Yost. Other contributors to the report on which the statement is based are Hiwotte Amare, Carl Barden, Maria C. Belaval, Edward Bodine, Melinda Cordero, David Chrisinger, Carla Craddock, Kristy Kennedy, John Lopez, Mimi Nguyen, James Rebbe, Ramon Rodriguez, George A. Scott, Aron Szapiro, and Helina Wong.

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