



Report to the Chairman, Subcommittee  
on Financial Services and General  
Government, Committee on  
Appropriations, U.S. Senate

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September 2013

DISTRICT OF  
COLUMBIA  
OPPORTUNITY  
SCHOLARSHIP  
PROGRAM

Actions Needed to  
Address Weaknesses  
in Administration and  
Oversight

# GAO Highlights

Highlights of [GAO-13-805](#), a report to the Chairman, Subcommittee on Financial Services and General Government, Committee on Appropriations, U. S. Senate

## Why GAO Did This Study

School vouchers, a school choice program designed to provide students with public funds to attend private schools, feature prominently in policy discussions about education reform. The OSP was reauthorized by Congress in 2011 by the Scholarships for Opportunity and Results Act, and has garnered national attention as the first federally-funded voucher program. Since the program's inception in 2004, Congress has provided almost \$152 million for the program benefitting almost 5,000 students, currently providing scholarships of about \$8,000 for grades K-8 and about \$12,000 for grades 9-12. As requested, GAO examined (1) the extent to which the Trust provides information that enables families to make informed school choices, (2) whether the Trust's internal controls ensure accountability for OSP, and (3) how Education and District agencies responsible for overseeing OSP have performed their stated roles and responsibilities.

To conduct this work, GAO visited 10 participating schools; interviewed school officials; conducted discussion groups with 14 parents of scholarship students; analyzed key program documents; reviewed generally accepted guiding documents for internal controls; and interviewed officials at Education, relevant District agencies, and the Trust.

## What GAO Recommends

GAO is making 10 recommendations to Education to improve OSP, such as ensuring that the Trust publishes a more complete school directory and updates key aspects of its policies and procedures. Education did not indicate agreement or disagreement with our recommendations. The Trust disagreed with some findings and both provided additional information.

View [GAO-13-805](#). For more information, contact George A. Scott at (202) 512-7215 or [scottg@gao.gov](mailto:scottg@gao.gov).

September 2013

## DISTRICT OF COLUMBIA OPPORTUNITY SCHOLARSHIP PROGRAM

### Actions Needed to Address Weaknesses in Administration and Oversight

## What GAO Found

The DC Children and Youth Investment Trust Corporation (the Trust) provides information to prospective and current families of children participating in the District of Columbia (the District) Opportunity Scholarship Program (OSP) through a variety of outreach activities. To reach prospective OSP families, the Trust advertises through print, radio, and bus ads, as well as in newspapers and flyers posted in neighborhood libraries, recreation centers, and local government service centers. However, the Trust provides incomplete and untimely information about participating schools to OSP families. The participating school directory, which is published by the Trust, lacks key information about tuition, fees, and accreditation. The Trust published the directory 9 months after the start of the 2012-13 school year, too late to assist families in selecting a school for that year. Without such information, parents cannot make fully informed school choices. Additionally, the Trust awarded scholarships to students several months after many schools completed their admissions and enrollment processes, limiting the amount of time and choice in selecting schools. Most families GAO spoke with were generally happy with OSP but some were concerned about the availability of program information.

The Trust's internal controls do not ensure effective implementation and oversight of OSP. Adequate policies and procedures can provide reasonable assurance of effective, efficient operations, reliable financial reporting, and compliance with applicable laws. However, the Trust's policies and procedures do not include a process for verifying eligibility information that schools self-report. As a result, the Trust cannot ensure that schools are eligible to participate in the program and, therefore, risks providing federal dollars to students to attend schools that do not meet standards required by law. Furthermore, the Trust's database is not well structured and hampers the effectiveness of program implementation. For example, the Trust lacks written documentation for the database, and staff must rely on institutional memory to ensure processes such as data entry are conducted properly, which could contribute to errors in the database. As required by law, the Trust groups eligible applicants into three priority categories by which scholarships are then awarded by lottery; however, weaknesses in the database's structure puts into question the Trust's ability to provide accurate priority categories. Additionally, the Trust has not submitted its mandatory financial reports on time, despite a legal requirement that these reports be filed within 9 months of the end of the entity's fiscal year. The Trust's fiscal year 2010 financial report was almost 2 years late, and the Trust's fiscal year 2011 and 2012 reports had not yet been submitted as of August 2013. In August 2013, the Trust also made amendments to its policies and procedures in three areas GAO identified. However, these amendments do not address all weaknesses identified in this report, and have not yet been fully implemented.

The Department of Education (Education) has provided limited assistance to the Trust in certain areas outlined in the memorandum of understanding (MOU) with the District and in the cooperative agreement with the Trust. Specifically, Education is responsible for helping the Trust make improvements to its financial system, enhance its site visit policies and procedures, and improve the accuracy of information provided to parents. Trust officials acknowledged that Education has provided general assistance regarding administrative and operational functions, but it has not assisted with specific improvements in these areas. Although the MOU is a written agreement between Education and the District, it holds the Trust, as the grantee, responsible for notifying District agencies to conduct required building, zoning, health, and safety inspections of participating schools—a requirement that is not detailed in the cooperative agreement signed by Education and the Trust—but would assist the Trust in providing continued oversight of schools participating in OSP. As a result, Trust officials were not acutely aware of this responsibility, and required inspections were not being conducted in the manner described in the MOU between Education and the District.

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### **Abbreviations**

COSO	Committee of Sponsoring Organizations of the Treadway Commission
D.C./District	District of Columbia
DCRA	Department of Consumer and Regulatory Affairs
Directory	Participating School Directory
Education	Department of Education
EMS	Emergency Medical Services
MOU	Memorandum of Understanding
OSP	Opportunity Scholarship Program
OSSE	Office of the State Superintendent for Education
SOAR Act	Scholarships for Opportunity and Results Act
Trust	DC Children and Youth Investment Trust Corporation

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September 30, 2013

The Honorable Tom Udall  
Chairman  
Subcommittee on Financial Services  
and General Government  
Committee on Appropriations  
United States Senate

Dear Chairman Udall:

In 2004, Congress passed the D.C. School Choice Incentive Act of 2003—the first federally-funded private school voucher program in the United States—in an effort to provide low-income parents residing in the District of Columbia (the District) with “expanded opportunities for enrolling their children in higher-performing schools.”<sup>1</sup> Specifically, the Act authorized the Secretary of Education to award grants to eligible entities to provide eligible students with scholarships to attend private elementary and secondary schools in the District. The District’s program is known as the D.C. Opportunity Scholarship Program (OSP), and it was reauthorized in 2011 for 5 years under new legislation, the Scholarships for Opportunity and Results Act (SOAR Act).<sup>2</sup> Since the program’s inception, Congress has provided more than \$152 million for OSP, which has, in turn, provided expanded school choice to low-income students by awarding almost 5,000 scholarships to students who would unlikely have otherwise been able to attend private school. Questions have been raised, however, about whether students have as broad a choice as intended. In the 2011-2012 school year, for example, over half of OSP students were enrolled in only 15 percent of private schools that have agreed to accept students from this program (participating schools).

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<sup>1</sup> Pub. L. No. 108-199, Div. C, Title III, 118 Stat. 3, 127 (2004).

<sup>2</sup> Pub. L. No. 112-10, Div. C, 125 Stat. 38, 199 (2011). The Act states that the reauthorization of OSP is part of a 3-part funding arrangement for the District’s public, charter, and private schools. Congress reported that the intent of this approach is to ensure that progress would continue to be made to improve public schools in the District and that resources would be available for a variety of educational options for District families. *Id.*, § 3002.

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In 2007, we reviewed OSP and found a need for increased accountability from the program administrator.<sup>3</sup> Specifically, we found that the administrator at the time of our review—the Washington Scholarship Fund—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, quality indicators,<sup>4</sup> or conformance with local safety and health regulations.

In 2010, the Washington Scholarship Fund withdrew as the administrator of OSP and the Department of Education (Education) transferred the grant to run the program to the DC Children and Youth Investment Trust Corporation (the Trust). The Trust was initially created to link public and private resources to address the needs of children, youth, and families in the District. Its activities are primarily funded by grants from the District government.

At the request of the committee, we assessed the extent to which the Trust is meeting its stated goals and properly managing federally appropriated funds. More specifically, our objectives were to determine:

1. the extent to which the Trust provides information that enables families to make informed school choices;
2. whether the Trust's internal controls ensure accountability for OSP; and
3. how agencies responsible for implementing and overseeing OSP have performed their stated roles and responsibilities.

To address these objectives we used multiple strategies. To assess the extent to which scholarship recipients are able to make informed school choices, we analyzed key documents regarding participating schools and the OSP program that are available to parents. We also conducted site visits to 10 participating schools and interviewed key school officials. In

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<sup>3</sup> 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).

<sup>4</sup> That is, information about a school's accreditation status, credentials held by teachers, and the financial stability for schools.

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selecting the schools we visited, we chose the 5 schools with the highest absolute number of OSP students and the 5 schools with the highest concentration of OSP students given the total enrollment at the school in the 2011-2012 school year. In addition, we used information from the 2011-2012 OSP Participating School Directory (the Directory) as well as OSP enrollment information for the 2011-2012 school year from the Trust's database to better understand the characteristics of participating schools. We also interviewed officials at the Trust and Education. To assess the reliability of the enrollment data from school year 2004-2005 to school year 2011-2012 from the Trust's database, we performed electronic testing for obvious errors in accuracy and completeness and interviewed agency officials knowledgeable about the data. We found substantial problems with the data, including missing fields or partially entered applications. However, we determined that the data were sufficiently reliable for the purpose of determining characteristics of OSP schools and students in school year 2011-2012. Lastly, to obtain information about the experiences of families in the program, we conducted two discussion groups—one in English and one in Spanish—with parents and guardians of students who received and used an OSP scholarship in the 2012-2013 school year.

To assess the extent to which the Trust's internal controls ensure accountability for OSP, we reviewed relevant laws and regulations, internal documents such as the Trust's policies and procedures manual, as well as generally accepted guiding documents for internal controls including those published by GAO and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).<sup>5</sup> We also analyzed the Trust's database for administering OSP. In addition, we interviewed officials at the Trust and Education, and the Trust's contractor in charge of creating and maintaining the database.

To assess the extent to which agencies responsible for overseeing OSP performed their stated roles and responsibilities, we reviewed relevant federal laws and regulations, guiding documents such as the June 2012 memorandum of understanding (MOU) between Education and the

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<sup>5</sup> GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999) and Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). We used the COSO standards to assess the Trust's internal controls because the COSO framework applies to non-profit entities.



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District of Columbia Government. We also interviewed key officials at the Trust, Education, and select agencies in the District. A more detailed discussion of our scope and methodology appears in appendix I.

We conducted this performance audit from May 2012 through September 2013 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.

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## Background

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### Laws Governing the Opportunity Scholarship Program

Congress passed the D.C. School Choice Incentive Act of 2003 in January 2004, which directed 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.<sup>6</sup> This Act created the program known as the District of Columbia Opportunity Scholarship Program (OSP), the first private kindergarten-through-grade-12 school choice program supported by federal funds. The purpose of the Act was 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 Elementary and Secondary Education Act of 1965, as amended, “with expanded opportunities for enrolling their children in higher performing schools in the District” by providing annual scholarships to attend the private elementary or secondary schools of their choice.

In April 2011, Congress reauthorized OSP for 5 years under the Scholarships for Opportunity and Results Act (SOAR Act).<sup>7</sup> The Act sets

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<sup>6</sup> Pub. L. No. 108-196, Div. C, Title III, §§ 304, 307, 118 Stat. 3, 127, 129 (2004). Appropriations for the program were authorized through fiscal year 2008.

<sup>7</sup> Pub. L. No. 112-10, Div. C, 125 Stat. 38, 199 (2011). Although the program was not reauthorized until April 2011, Congress provided appropriations for the program in the Omnibus Appropriations Act, 2009, Pub. L. No. 111-8, 123 Stat. 524, 653, and the Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3034, 3181.

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forth requirements for participating private schools.<sup>8</sup> Specifically, the law provides that none of the funds may be used by an eligible student to enroll in a participating private school unless the participating school

1. has and maintains a valid certificate of occupancy issued by the District of Columbia;
2. makes readily available to all prospective students information on its school accreditation;
3. if operating for 5 years or less, submits to the eligible entity administering the program proof of adequate financial resources and the ability to maintain operations throughout the school year;
4. agrees to submit to site visits as determined to be necessary;
5. has financial systems, controls, policies, and procedures to ensure that funds are used according to the statute; and
6. ensures that each teacher of core subject matter in the school has a baccalaureate degree or its equivalent, regardless of whether the degree was awarded in or outside of the United States.<sup>9</sup>

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## Administration and Oversight of OSP

Education's Office of Innovation and Improvement, which is charged with the management of the program and oversight of the program administrator, awards scholarship funds to a grantee and provides programmatic guidance and technical assistance. Soon after the D.C. School Choice Incentive Act passed in 2004, Education awarded the grant to operate the OSP to the Washington Scholarship Fund, a nonprofit organization in the District of Columbia that had experience providing privately funded scholarships to low-income students. In May 2010, Washington Scholarship Fund withdrew as the grantee and Education transferred the grant for administration of OSP to the DC Children and Youth Investment Trust Corporation (the Trust), a non-profit organization.<sup>10</sup> As the program administrator, the Trust recruits new students and schools, receives and processes applications, and awards

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<sup>8</sup> Pub. L. No. 112-10, § 3007(a)(4), 125 Stat. 38, 203.

<sup>9</sup> *Id.*, § 3007(a)(4).

<sup>10</sup> Established in 1999 by a charter from the District of Columbia, the DC Children and Youth Investment Trust Corporation partners with public schools, city agencies, and for-profit and nonprofit entities, to provide grants, technical assistance, youth training, and other support for children and youth in the District of Columbia.

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scholarship funds to program participants. The Trust is also responsible for providing oversight to participating private schools.

The SOAR Act, which was enacted about 11 months after the Trust assumed responsibility for administering the OSP grant, states that the grantee (the Trust) must ensure that scholarships be awarded through a random selection process if more eligible applicants seek admission to the program than the program can accommodate, or if more eligible applicants seek admission to a participating school than the school can accommodate, and the Trust has implemented this requirement through a lottery process. The groups of applicants that have a priority status as defined in the SOAR Act are (1) applicants who are currently attending a school that has been identified for improvement, corrective action, or restructuring under the Elementary and Secondary Education Act of 1965, as amended; (2) applicants who have a sibling currently participating in OSP; and (3) applicants who received an OSP scholarship award in a previous year but did not use it. At the time of our review, the lottery process was carried out by Westat, a contractor.

In addition, the SOAR Act updates the responsibilities for implementing OSP for the District and Education. It directs the Secretary of Education and the Mayor of the District to revise the MOU regarding the implementation of OSP that was required pursuant to the D.C. School Choice Incentive Act. The MOU governs the program for fiscal year 2011 and all subsequent years. It is intended to help ensure the efficient and effective continued implementation of the OSP in a manner that incorporates and is consistent with the roles and responsibilities of both Education and the District. According to the MOU, Education is responsible for overseeing the Trust<sup>11</sup> as a recipient of federal funds and working with the Trust to ensure that it makes improvements to various aspects of program administration. The District also has a role in the administration of OSP. The MOU states that District agencies are directly responsible for conducting required building, health, and safety inspections of participating schools when notified by the Trust.

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<sup>11</sup> The Trust is not a party to the MOU, nor is it identified by name in the MOU. Instead, the MOU refers to the OSP grantee. However, for ease of reference, in this report, we refer to the MOU as though it does specifically identify the Trust as the OSP grantee.

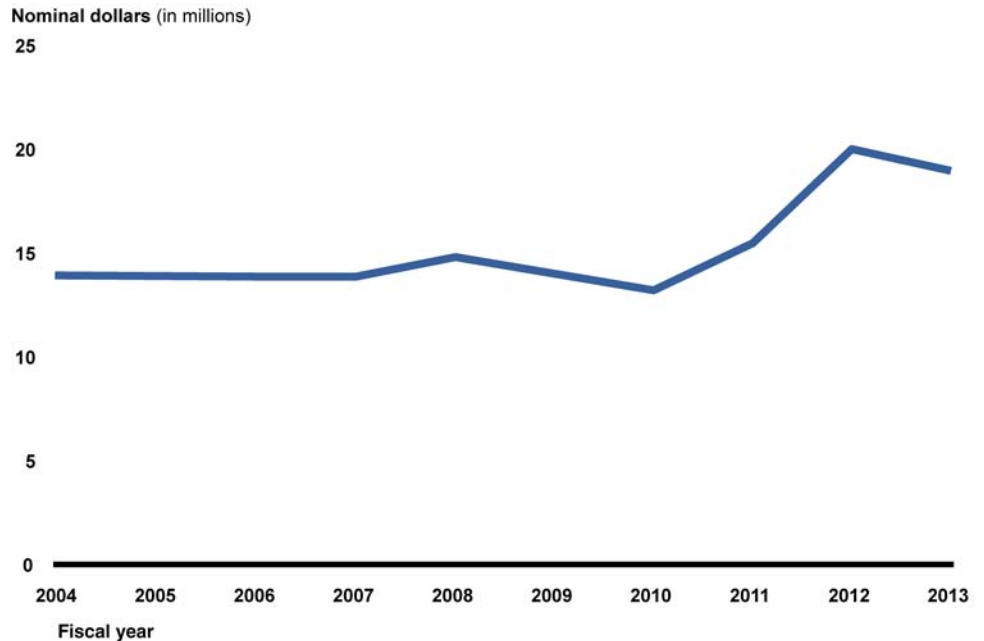
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## Federal Funding for OSP and Use of Funds

According to Education, from fiscal years 2004-2010, Congress appropriated between \$13.2 and \$14.8 million per year for OSP, as shown in figure 1. For fiscal year 2011, the appropriated amount increased to about \$15.5 million, and in fiscal year 2012, the appropriated amount increased to \$20 million. Most recently, Congress appropriated about \$19 million for the program for fiscal year 2013. Since OSP's creation, about \$152 million has been appropriated in total.

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**Figure 1: Federal Appropriations for the Opportunity Scholarship Program, FY 2004 – 2013**



Source: U.S. Department of Education.

The SOAR Act permits 11 percent of the grant funds each year to be used for certain administrative and other purposes as follows—with the remainder of the funds going towards student scholarships:

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- Education:
    - 5 percent for the program’s evaluation,<sup>12</sup>
  - The grantee (the Trust):
    - 3 percent for administrative costs,<sup>13</sup>
    - 2 percent for parental assistance,<sup>14</sup> and
    - 1 percent for student academic support services.<sup>15</sup>

The law provides for an increase in the amount of the scholarship for eligible students. Specifically, it provides up to \$8,000 for grades K-8 and \$12,000 for grades 9-12 starting in school year 2011-2012.<sup>16</sup> While tuition is paid first, any leftover scholarship funds can be used to pay for school fees—including uniforms, field trips, before and after care—and transportation expenses.<sup>17</sup>

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## Student Eligibility and Enrollment in OSP

OSP is open to residents of the District who meet income eligibility guidelines. Specifically, students must come from households that have a combined income at or below 185 percent of the federal poverty

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<sup>12</sup> Pub. L. No. 112-10, § 3009(d). Under the SOAR Act, Education’s Institute of Education Sciences has been tasked with the annual evaluation of the performance of students who received program scholarships. These evaluations are required to include a comparison of academic growth and achievement between students who received program scholarships and eligible students who applied but did not receive scholarships and a comparison of retention, high school graduation, and college admission rates of participating students and those who did not participate. *Id.*, § 3009(a)(3). However, we do not discuss the program evaluation within the scope of this report because our focus was on the Trust’s administration of the program.

<sup>13</sup> Pub. L. No. 112-10, § 3007(b).

<sup>14</sup> *Id.*, § 3007(c).

<sup>15</sup> *Id.*, § 3007(d).

<sup>16</sup> The law allows for scholarship amounts to be adjusted for inflation beginning in school year 2012-2013. As a result, the maximum scholarship amounts for the 2012-2013 school year were \$8,256 for grades K-8 and \$12,385 for grades 9-12. Under the D.C. School Choice Incentive Act of 2003, the scholarship amount for all students was \$7,500.

<sup>17</sup> Expenses not covered by the program may include parent participation and/or fundraising fees, select uniform items such as undergarments or sneakers, basic school supplies, personal transportation, or other items not related to academic success.

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threshold<sup>18</sup> or that receive Supplemental Nutrition Assistance Program benefits (known as SNAP benefits) issued within the District. The student must also be at least 5 years old by September 30<sup>th</sup> of the school year.

In the 2011-2012 school year, there were 53 participating schools in OSP (see fig. 2). These schools represent a wide range of grades, sizes, sectors, and tuition levels.

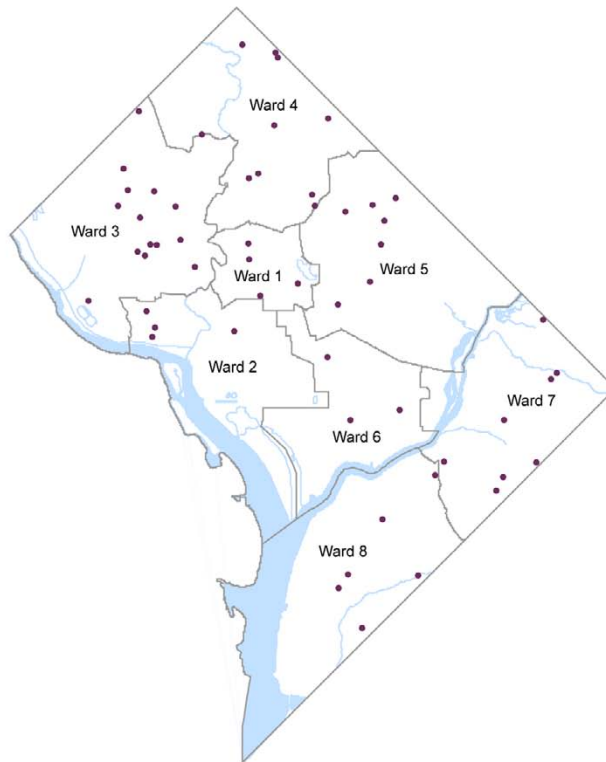
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<sup>18</sup> This threshold is increased to 300 percent of the federal poverty threshold for continuing students. The higher income limit for continuing students may remove any program disincentives for families who are able to increase their incomes.

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**Figure 2: Location and Enrollment of OSP Participating Schools in the District, School Year 2011-2012**

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Sources: GAO analysis of DC Children and Youth Investment Trust Corporation program data, MapInfo; 2012 DC government ward data

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These schools are located throughout all eight wards of the District, with the greatest number of schools located in Ward 3. In accordance with District regulations for all private schools operating in the District, these schools must be accredited by, or be in the process of being accredited by, at least one of seven recognized accrediting organizations or any other approved accrediting body. Schools that are unaccredited must submit documentation to demonstrate satisfactory evidence of instruction.

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### Internal Controls Relevant to Implementation and Oversight of OSP

Internal control is broadly defined as a process—affected by an entity’s board of directors, management, and other personnel—designed to provide reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations. Internal controls include 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. Effective internal control is a major part of managing any organization to achieve desired outcomes and manage risk.

*Standards for Internal Control in the Federal Government* presents five standards that define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated.<sup>19</sup> These standards—control environment, risk assessment, control activities, information and communication, and monitoring—apply to all aspects of an agency’s operations and should be an integral part of a system that managers use to regulate and guide an agency’s operations. The private sector also recognizes the importance of internal controls for executives to better manage their business enterprises. The Committee of Sponsoring Organizations of the Treadway

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<sup>19</sup> [GAO/AIMD-00-21.3.1.](#)



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Commission's (COSO)<sup>20</sup> *Internal Control—Integrated Framework* includes the same five key elements stated previously, 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.

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## The Trust Provides Untimely Information and Scholarship Awards

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The Trust Provides Information to Families through Many Channels, but Its Participating School Directory Provides Incomplete and Untimely Information

The Trust provides program information to prospective and current OSP families through a variety of outreach activities. To reach prospective OSP families, the Trust advertises through print, radio, and bus ads, as well as in newspapers and flyers posted in neighborhood libraries, recreation centers, and local government service centers. For example, one OSP parent told us she found out about OSP through a local Spanish-language newspaper. The Trust conducts several application events throughout the District where interested families can apply for the program. The Trust also holds a participating school fair in which OSP families can obtain additional information about participating schools. In addition, the Trust works<sup>20</sup> with families directly, offering frequent personal contact to assist families through the scholarship application and renewal processes, according to Trust officials. The Trust provides this assistance via phone, e-mail, and through one-on-one interactions, and employs Spanish and Amharic speakers to assist non-English speaking families.<sup>21</sup> Lastly, the Trust holds events to assist current OSP families, such as a

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<sup>20</sup> Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent, private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors; the U.S. Securities and Exchange Commission and other regulators; and educational institutions. In 1992, COSO issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. 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, including internal control over financial reporting.

<sup>21</sup> Amharic is a language spoken in Ethiopia.

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workshop for students transitioning from 8th grade to high school. 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.

The SOAR Act requires all OSP grantee applicants to describe how parents of eligible students will be notified of the expanded choice opportunities each year, and the Directory is a key source of information about schools in the program. The Trust publishes the Directory for each school year in both English and Spanish, and it is designed to provide families with basic information on each participating school. The Directory also includes guidance on how to apply to private schools and worksheets to help families in their school search. In addition, the Directory provides information on tuition, accreditation, admissions, and facilities for each school participating in OSP for a given school year.

The 2011-2012 Directory was used to assist families with selecting schools for 2012-2013. We found that this Directory lacked key information about schools' tuition, fees, and accreditation that could help families make more informed school choices:

- **Tuition:** The 2011-2012 Directory listed one tuition amount for each school. According to Trust officials, the published tuition amount is the tuition applicable to each student unless the student is in a category to receive a discount on tuition. Whether a school offered different tuition levels, however, was not noted in the Directory. We found that many schools have different tuition levels, varying by grade level and religious affiliation.
  - *Grade level:* Nine of the 53 participating schools in school year 2011-2012 offered different tuition levels for students in grades K-8 versus students in grades 9-12. In addition, 10 of the 53 participating schools had tuition levels that differed within grades K-8.
  - *Religious affiliation:* Some religious schools also offered lowered or discounted tuition rates for their members. For example, in school year 2011-2012, 6 Catholic schools offered lowered tuition rates for Catholic families, but the Directory only listed the higher, non-Catholic tuition rate. In addition, a Seventh-day Adventist school offered three different tuition levels, with the lowest rates offered to families belonging to their church and the highest rate offered to families who were not affiliated with this denomination.

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Only the highest tuition rate, however, was published in the Directory.

**OSP School Selection and Schools' Cost of Attendance**

*[T]here is a large [school], which I really liked...but when they sent me the paper where it says the [tuition] amounts, I got rid of that hope...The price [was] around \$32,000 and near to my house. No, that is not for me. So I got rid of [that] hope, and I went looking for other schools, that were around what the scholarship gives you [for high school], \$12,000. – an OSP parent*

Although there are 53 participating schools in OSP, over half of all OSP students enroll in 8 of these schools. In the 2011-2012 school year, the estimated minimum cost of attendance at all of these 8 schools was completely covered by the full OSP scholarship amount. The estimated cost of attendance at 18 schools was over \$20,000, far exceeding the amount that could have been covered by an OSP scholarship. About 5 percent of OSP students were enrolled in these schools. For the remaining 27 schools, the estimated cost of attendance ranged from about \$5,700 to \$18,300. These enrollment and cost of attendance trends suggest that families may choose schools where the entire cost of attendance could be covered by the OSP scholarship. Therefore, although a wide range of schools participate in OSP, families' choices may, in practice, be constrained to certain schools.

- **Fees:** The Directory offers parents limited information about fees. For example, the Directory excluded the cost of commonly required fees at schools, such as registration and book fees. In addition, many OSP families may need services such as before and after care, and hot lunches. The Directory listed the availability of such services but did not include their cost. The Directory also excluded information about parental involvement or fundraising fees. Some schools can reimburse at least part of these fees if parents volunteer a certain number of hours, according to four school officials. If a family cannot fulfill these volunteer hours, then it must pay these fees out of pocket because these fees are not covered under the OSP scholarship. Most OSP students attend schools where the maximum OSP scholarship amount would cover the estimated total cost of attendance (see sidebar). But without having this information, it is difficult for families to know the full cost of attendance, and they may be responsible for paying fees that they were unaware of. This may be difficult, given this program's target population.
- **Accreditation:** The Directory also offers families incomplete information about schools' accreditation status. According to representatives of accreditation organizations, school accreditation is important because it serves as a means of accountability and oversight. The Directory indicates which accrediting organizations are recognized by the District. However, the Directory lists some schools' affiliated memberships as an accreditation organization. For example, one school was listed as having the National Association of Episcopal Schools as an accrediting organization, but this organization does not accredit schools. Three schools were listed as being accredited by Nativity Miguel, which is a network of schools serving low-income communities, not an accrediting organization.

Some families we spoke with told us that they did not receive the Directory or tuition information, and therefore, they were not aware of which costs would not be covered by OSP or which schools were participating in the program. Instead, they communicated directly with schools about whether they were participating in the program. Although the Directory is publicly available on the Trust's website, not all program participants may have computer or Internet access. In addition, even if families have Internet access through smart phones, this does not necessarily mean that program participants can use them to access everything they need, according to one school official. Trust officials told

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us they provide direct assistance to families to help them select schools and discern their total cost of attendance, but not all families may be receiving this assistance.

In addition to having incomplete information, the Directory has also been published too late to truly assist families in selecting a school. Families need to select schools for their students before the school year starts in August or September. However, the Trust published the Directory for the 2012-2013 school year in May 2013, about 9 months after the start of that school year. According to Trust officials, the Directory was published late because the school site visits—during which Trust officials confirm and update key school data for the Directory—occurred later in the year than in previous years due to substantial staff changes. Trust officials also told us that these directories are primarily meant to inform families selecting schools for the upcoming school year. While the 2012-2013 Directory was issued too late to assist families for that same school year, it can assist families for the upcoming 2013-2014 school year. Trust officials stated that in the future they plan to publish the Directory by December of the current school year. The Trust plans for future Directories to include more accurate notation of the school accrediting bodies and a general notation about applicable discounts and/or additional fees.

According to Trust officials, they issued a list of participating schools in the fall for the 2012-2013 school year to assist families with school selection. This list of participating schools was intended to be a companion piece to the 2011-2012 Directory and included schools' addresses and grades served, but it did not include key information such as updated tuition information and admissions requirements. According to Trust officials, the participating school list is updated as needed to reflect any school changes that may have occurred between the publication of the previous year's Directory and the start of the school year. For example, the 2012-2013 list of participating schools excluded a school that had closed, even though this school was listed in the 2011-2012 Directory. While some families may have been able to fill any gaps between these two sources of information through the guidance and hands-on assistance provided by the Trust, the extent to which all families had access to this direct assistance is unclear.

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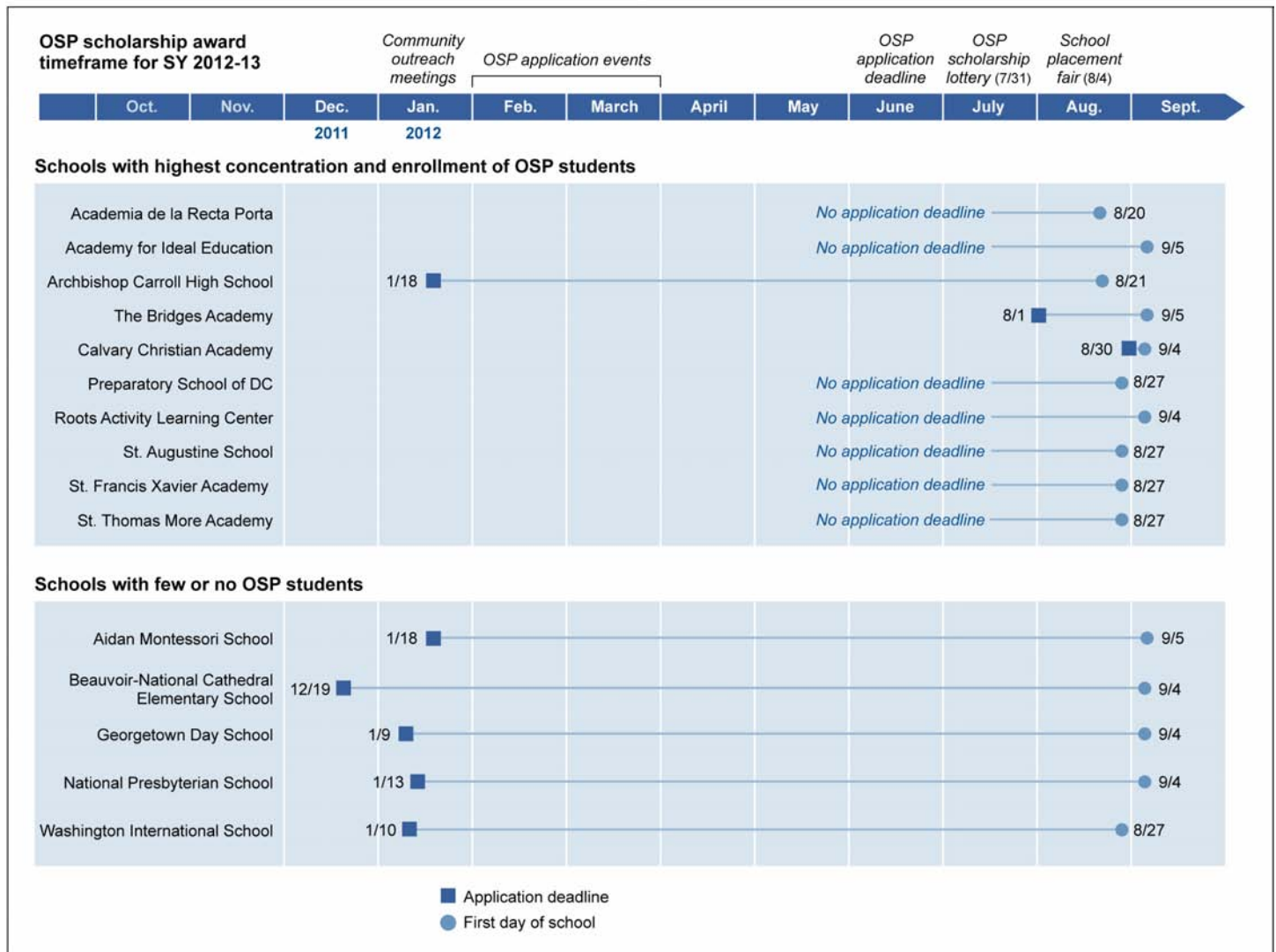
## The Timeframes for Awarding Scholarships Do Not Align with Many Schools' Admissions and Enrollment Schedules

For both the 2012-2013 and the 2013-2014 school years, the Trust awarded scholarships several months after many schools' application deadlines had passed. For the 2012-2013 school year, the Trust conducted its scholarship lottery in July 2012, about 1 month before classes started for many schools. In addition, the Trust did not hold its school placement and welcome fair, which it uses to assist families with school selection, until August 2012, the same month that classes began for 6 of the 10 schools we visited, as shown in figure 3. By that time, many of the schools in OSP had already completed their admissions and enrollment processes. We found that 9 of the 10 schools we visited did not have an application deadline or were still accepting applications after students had been notified that they had received a scholarship.<sup>22</sup>

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<sup>22</sup> We visited schools that had the highest concentration and enrollment of OSP students in the 2011-2012 school year. See appendix I for additional details about the selection of these schools.

**Figure 3: OSP Scholarship Timeframes and Application Deadlines at Participating Schools with Highest and Lowest OSP Enrollment, School Year 2012-2013**



Source: GAO analysis of program timeframes and SY 2011-2012 OSP enrollment data.

For the 2013-2014 school year, the Trust moved up its timeframes, giving families more time to select schools than in the previous year. First, the Trust awarded scholarships in late May 2013 and held its school placement and welcome fair in early June rather than August, as was done in 2012, according to Trust officials. Still, as in school year 2012-2013, many schools had already completed their admissions and enrollment processes by that time. In addition, according to some schools

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we visited, awarding scholarships so close to the start of the school year can affect their ability to adequately plan for the coming school year. For example, officials at two schools we visited told us that as a result of the scholarship lottery and school fair being held in July and August 2012, respectively, they did not know how many students would be enrolled at their schools until just a few weeks before the school year started in August. This made it difficult to discern class sizes and plan for the number of teachers needed.

Officials at schools we visited told us that they have found ways to work around the scholarship time frame and accommodate OSP students. For example, one school held an additional open house and another school accepted applications as late as the first week of school, according to two school officials. However, several parents we spoke with mentioned that they only had about a month to find a school and enroll their students, at which time many schools were no longer accepting students, and three school officials told us that the scholarship timeframes do not give families enough time to research school options. Since the application and financial aid deadlines for some of the program's most costly schools occur much earlier than the OSP scholarship timeframes, by the time a student is awarded a scholarship, there are neither financial aid dollars from the school nor space available for that student.<sup>23</sup>

According to Trust officials, Education's requirement to verify family income using the most recent complete year of income information delays scholarship awards. To verify income information, the Trust also told us they have to wait until after the April 15th tax filing deadline. Trust officials noted that some schools use prior year income information to determine provisional financial aid awards, reconcile these awards with the current year's tax information once that is available, and rescind financial aid awards if the incomes exceed a certain level. Trust officials expressed concerns about having to potentially rescind any scholarships, even though the chance that incomes will change so substantially among program participants is low. Trust officials are currently exploring ways to use prior year income information to determine eligibility earlier in the year and enable them to award scholarships earlier. Education officials

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<sup>23</sup> These schools generally have tuition levels that far exceed the OSP scholarship limit, but they also have the capacity to finance the remainder of the student's cost of attendance through their own financial aid programs, which can include grants and scholarships.

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told us if the Trust wants to consider using a different year's income for the purpose of making preliminary determinations regarding students' eligibility, it would have to submit its proposal to Education for evaluation.

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## The Trust Has Not Developed Effective Internal Controls to Safeguard Program Funds

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### The Trust Has Not Developed Effective Policies and Procedures for Implementing and Overseeing the Program

The Trust's policies and procedures lack detail in several areas related to school compliance and financial accounting, which may result in little overall accountability for program funds. The absence of detailed policies and procedures also reflect weak internal control in the areas of risk assessment, control activities, information and communication, and control environment. Internal control is broadly defined as a process designed to provide reasonable assurance that an organization can achieve its objectives with effective, efficient operations, reliable financial reporting, and compliance with laws and regulations. The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control—Integrated Framework*,<sup>24</sup> includes five key elements or components, as shown in table 1. COSO is applicable to the Trust because it is a non-governmental entity.

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<sup>24</sup> Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent, private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors; the U.S. Securities and Exchange Commission and other regulators; and educational institutions. In 1992, COSO issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. 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, including internal control over financial reporting. In May 2013, COSO issued an updated *Internal Control—Integrated Framework*.



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**Table 1: COSO Internal Control—Integrated Framework**

Control environment	The Control Environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk assessment	Risk Assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed.
Control activities	Control Activities are the policies and procedures that help ensure management directives are carried out. Control Activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.
Information and communication	Information and Communication relates to the idea that pertinent information must be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial, and compliance-related information, that make it possible to run and control the business. There also needs to be effective communication with external parties, such as customers and regulators.
Monitoring	Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Source: COSO.

Policies and procedures are a central part of control activities and help ensure necessary actions are taken to address risks to achievement of the entity's objectives. In August 2013, the Trust made amendments to its policies and procedures to address the financial review performed on schools, administrative expenses, and bank reconciliations. However, these amendments do not address all weaknesses identified in this report, and they have not yet been fully implemented.

### Self-Reported Information for School Compliance

The Trust, as administrator of OSP, is responsible for ensuring that participating schools comply with the reporting and program requirements that are outlined in the SOAR Act. The Trust, however, does not have a process for independently verifying the information that schools submit as evidence of compliance, reflecting weaknesses in the Trust's risk assessment process and internal control activities.

The SOAR Act requires a potential OSP grantee to demonstrate how it will ensure that participating schools meet certain reporting and program requirements specified in the Act. In addition, the SOAR Act requires the grantee applicants to ensure that participating schools report to parents at least once during the school year on students' academic achievement, as well as the safety and accreditation status of the school. The Act also requires schools to meet certain standards, such as building occupancy and teacher credentialing requirements. The Trust's policies and procedures state that participating schools must self-certify whether they have met several of these requirements.

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Participating schools complete a School Participation Verification Form that is submitted to the Trust each year to attest to student academic performance, school safety, and all of the applicable requirements in the SOAR Act, including status of accreditation. According to District regulation, if a private school in the District is not accredited, the school can provide evidence of acceptable instruction to the District's Office of the State Superintendent for Education (OSSE) by submitting information regarding teacher credentials and curriculum documentation. However, during our interview, officials from OSSE stated that they do not regularly ensure that schools have an acceptable curriculum. Officials we spoke with said that they are revisiting this policy, but they did not provide a timeline for whether and when any changes will occur. According to OSSE officials, the last time the Trust requested an accreditation review of participating OSP schools was before the start of the 2010-2011 school year.

The SOAR Act states that participating schools must maintain a valid certificate of occupancy. The Trust collects and reviews copies of the certificates of occupancy. However, if the validity of the certificate of occupancy changes, the Trust may not know of the change. We obtained and reviewed the certificates of occupancy for the 10 schools we selected for site visits. In 5 of the 10 schools, we could not discern the validity of their certificates of occupancy. For example, one school's certificate of occupancy did not list "school" or "private school" for the use, but rather "child development center and infant preschool." Enrollment at three other schools, as shown in the Directory, appeared to exceed the listed capacity, and one additional school's certificate did not list a capacity so it is not known if the school has exceeded its current capacity. Additional follow-up is needed to determine if these certificates of occupancy are, in fact, valid, but the Trust does not make any inquiries with the District agency responsible for issuing certificates of occupancy, nor does the Trust follow up with the schools.

In addition, the Trust conducts site visits at participating schools but does not verify the documents or activities to which the schools attest. Participating schools complete a School Review Form to document each site visit. This form is also used by schools to attest to meeting reporting and program requirements and is not independently verified by the Trust.

As the program administrator, the Trust is responsible for mitigating potential program risks. Verifying the information reported by participating schools is important to ensuring that scholarships are awarded only to students to attend participating schools that are in compliance with the

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Financial Stability Review of  
Schools

SOAR Act's requirements and that the program is administered effectively. Without a mechanism or procedures for verifying the accuracy of the information provided by participating schools, the Trust cannot ensure that schools are eligible to participate in OSP and, therefore, risks providing federal dollars to students to attend schools that do not meet the educational and health and safety standards required by the District.

The Trust's policies and procedures lack sufficient detail to ensure each participating school in OSP has the financial systems, controls, policies, and procedures in place to ensure federal funds are used according to the law, a requirement of the SOAR Act.

The Trust's policies and procedures require the financial Controller of the Trust to review documentation that demonstrates the adequacy of each participating schools' financial resources. Based on this financial review, the Trust has identified two schools as "high risk," one for issues that occurred during the 2010-2011 school year, and the other for financial struggles in 2011. However, the policies and procedures for this financial stability review do not identify the specific risk factors that should be considered when assessing schools' financial sustainability information.<sup>25</sup> In addition, it is unclear what risk factors were considered during the prior Controller's review of the schools' documentation demonstrating adequate financial resources since the policies and procedures did not specify factors to consider and, according to current Trust officials, there was no documentation about the review.

According to the risk assessment and control activities components of COSO's internal control framework, it is important that management carefully considers factors that contribute to or increase risk and that management creates policies and procedures that help ensure that necessary actions are taken to address these risks. For OSP, factors that contribute to or increase risk include whether a school can continue to reasonably meet its financial obligations as they become due, and how dependent a school is on OSP funds. If a school cannot reasonably meet its financial obligations, it could be monitored more closely before and after being accepted into the program. If a school is overly reliant on OSP

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<sup>25</sup> In August 2013, the Trust made amendments to the policies and procedures manual regarding the financial review performed on schools, administrative expenses, and bank reconciliations. However, these amendments do not address all weaknesses identified in this report, and they have not yet been fully implemented.

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funds, which would be determined by the Trust, further review or increased monitoring could be warranted. As a result of certain risk factors not being considered in assessing schools' financial sustainability, schools that are not financially sustainable may be participating in the program.

Based on documents provided by the Trust, several schools we visited that participated in OSP during the 2010-2011 and 2011-2012 school years did not provide detailed financial statements necessary to assess their financial stability, and during this time, the Trust did not have a practice of documenting its financial review of schools.<sup>26</sup> The financial information submitted by 6 of the 10 schools we visited did not include detailed financial information required by the Trust's policies and procedures. There was not any documentation or guidance completed by the previous Controller on these financial reviews. Officials from participating OSP schools we visited also confirmed that the Trust did not ask for additional information or support for the financial condition of the schools. Despite the policies and procedures that exist for OSP financial review of schools, there is little documentation detailing the analyses performed or the conclusions reached by the Trust. In addition, exceptions to the policy, such as where schools submitted information that did not adhere to the policies and procedures, was not documented. As stated earlier, the Trust amended their policies and procedures in August 2013 to include more detail regarding the financial review of participating schools; however, these amendments have not yet been fully implemented.

### Addressing Non-Compliant Participating Schools

The Trust does not have detailed policies and procedures for dealing with schools that are not in compliance with program rules. For example, if the Trust discovers that a school no longer possesses a valid certificate of occupancy or is not accredited and did not meet the District's educational standards, the Trust lacks policies and procedures dictating what is to be

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<sup>26</sup> According to the Trust's policies and procedures, the finance resource documentation submitted by schools is used by the Trust's administrator to make an informed judgment as to whether there is proof of adequate financial resources reflecting the financial sustainability of the school, in addition to the school's ability to be in operation throughout the school year. The Controller reviews documents submitted by the school. Documents accepted for finance resources include audited financial statements, financial statements accompanied by a letter from a Certified Public Accountant, letter signed by a Certified Public Accountant indicating the school is operating according to generally accepted accounting principles, or other documentation.

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done at what time in the school year to ensure all schools participating in the program meet program rules and all students in OSP are attending schools that comply with these standards of safety, educational quality, and financial stability. The Trust's policies and procedures provide only one example of a policy directed at a school not meeting standards required by the SOAR Act: if a school is unable to provide supporting documentation for financial sustainability, the Trust's policy is that scholarship payments to the school will be distributed on a month-to-month basis, as opposed to three times per year. It is a weakness in the Trust's control activities that there is not a clearly defined, comprehensive written policy addressing schools out of compliance with program rules. Trust officials told us that they were not clear on what actions they could take to address non-compliant schools. However, Education officials told us that under certain circumstances the Trust can remove a school from participating in OSP.

#### Administrative Expenses and Bank Reconciliations

The Trust's policies and procedures for fiscal years 2010, 2011, and 2012 did not specify how to track administrative expenses, including what expenses should be included, and the Trust has little documentation to support administrative expenses incurred during the fiscal years 2010, 2011, and 2012. In addition, the Trust does not have detailed policies and procedures outlining the monthly bank reconciliation process, where staff review accounting system records and compare them to bank records.<sup>27</sup> As stated earlier, it is important that an entity's management have policies and procedures in place that address risks to achieving an entity's objectives. Control activities include a range of activities such as verifications, reconciliations, as well as reviews of operating performance and security of assets.

The SOAR Act limits the Trust's administrative expenses to 3 percent of the annual grant amount. The Trust's policies and procedures state that they may only draw down federal funds from Education on a reimbursement basis after such expenses have been incurred and paid. While the Trust's policy manual does provide guidance for tracking employee time that should be billed to the program, it does not provide guidance for other expenses such as rent, telephone, printing, or office

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<sup>27</sup> In August 2013, the Trust made amendments to its policies and procedures manual regarding the financial review performed on schools, administrative expenses, and bank reconciliations. However, these amendments do not address all weaknesses identified in this report, and they have not yet been fully implemented.

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supplies, which could possibly be counted as administrative expenses for purposes of seeking reimbursement. The cost of administering OSP could be higher or lower than the 3 percent designated for administrative costs. Because these expenses were not tracked prior to October 2012, the true cost of administering the OSP program is unknown. In part due to the outcome of their fiscal year 2010 financial audit, the Trust has begun to track administrative expenses more closely.

The Trust did not draw down federal reimbursement from Education for administrative expenses for fiscal years 2010, 2011, and 2012.<sup>28</sup> In addition, the Trust did not document the decision or approval as to why it did not follow its policies and procedures or did not request reimbursement from Education for its administrative expenses. According to Education officials, grantees do not typically document why they have not drawn down funds. In addition, they explained that Education's grants management system automatically flags funds that have not been drawn down within a particular time frame and the system has not flagged the Trust since funds had been drawn for the scholarships. Education officials also stated that the Trust classifies its obligations and expenditures in reports such as their monthly expense reports, which is sufficient for the department's purposes.

In addition, as part of the finance department's monthly bank reconciliation process, the Trust's policies and procedures also refer to scholarship payment reconciliation as well as administrative expense drawdown reconciliation. However, the Trust's policies and procedures do not specify certain aspects of the reconciliation, such as when the reconciliations should be completed, how exceptions should be identified and disposed, how the process should be documented, and when the reconciliation should be reviewed—and by whom.

Without the specific guidance in the policies and procedures, it will be difficult for the Trust to ensure that items are being appropriately and consistently tracked and recorded, as administrative expenses may be included that should not be (or not included that should be). In addition, without specificity in the policies and procedures regarding bank reconciliations, these reconciliations may not be completed in a

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<sup>28</sup> Due to the transfer of the OSP grant to the Trust in May 2010, the fiscal year 2010 draw-down would only reflect administrative expenses incurred for OSP administration from May 2010 through September 2010.

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consistent or timely manner and increases the potential for errors, and likelihood that errors will not be identified and corrected in a timely manner.

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### The Trust's Database Is Not Efficiently Structured

The Online Reports and Invoicing System (the database), which is used by the Trust to manage the OSP program, is not structured well enough for effective program implementation and oversight. Information contained in the database includes current and past application information for students and guardians, school placement information for each student who received a scholarship award, payment information, and information on participating schools.

According to COSO's Integrated Framework, information should be communicated to management and within the entity 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, it is important that Trust officials have access to accurate, up-to-date student application information in order to meet program objectives, such as determining eligibility and awarding OSP scholarships in an efficient and timely manner. Similarly, 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. The Trust's database has several deficiencies including a lack of documentation and automated checks, and a deficient structure, which leaves the database open to errors and slows the Trust's ability to manage the program on a day-to-day basis, and communicate information about the program to families and Education.

### Lack of Documentation

The Trust (including the contractor that created and maintains the database) does not have any documentation for this database. For example, there is no user guide or data dictionary, and potential users of the database must rely on the institutional memory of select users who have had more experience with the database to understand how to properly use the database or the definitions of key data fields. When we attempted to follow various verbal or informal written instructions for using the database, we found flaws in these instructions that necessitated several rounds of follow-up to successfully perform key functions and basic data manipulation. It is not known what specifically caused this condition, but Trust officials have noted financial constraints in requesting more support from the contractor.

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## Lack of Automated Checks

In addition to lacking documentation, the database does not have key automated checks built into the system to ensure accuracy and efficient data entry. Automated checks help maintain integrity in a database reducing the risk that a significant mistake could occur and remain undetected and uncorrected. For example, the Trust's database does not have checks to determine if a student's application information has already been entered. When a student submits an application, before his or her information is entered into the system, a Trust staff person must run searches in the database for his or her name, the guardian's name, both persons' Social Security numbers and address to ensure the applicant is not already in the system. These checks are necessary because the system allows duplicate entry of the same student information, potentially rendering the data unreliable, even with the searches described above. To ensure data are accurate given the lack of automated checks, the Trust stated that one of their officials runs several queries and creates tables in Microsoft Excel to check for errors by hand on a weekly or more frequent basis during key periods for the program.

## Weaknesses in Structure

The database's current structure hampers an administrator's ability to look at historical trends and use them as an effective management tool. When the Trust inherited the database from the Washington Scholarship Fund, the older data in the system were not cleaned, and thus there are many records in the database with missing fields, or applications that are only partially entered, suggesting they are not valid records. The Trust has stated they cannot attest to the accuracy of these older data. Yet, the Trust is using these older data in reports without an explanation of the potential issues of inaccuracy.

The weaknesses in the database's structure also affect key activities for the Trust, such as determining the priority groups of applications for the OSP lottery. As stated earlier in this report, the SOAR Act states that if more students apply to OSP than the program can accommodate, the grantee (the Trust) must ensure that applicants are selected for awards through a random selection process that gives weight to three priority groups (which the Trust has implemented through a lottery). The groups of applicants that have a priority status as defined in the SOAR Act are: (1) applicants who are currently attending a school that has been identified for improvement, corrective action, or restructuring under the Elementary and Secondary Act of 1965, as amended; (2) applicants who have a sibling currently participating in OSP; and (3) applicants who received an OSP scholarship award in a previous year but did not use it. Using the Trust's database, we employed our own methodology to replicate the process to determine the number of students in each



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applicant priority group for the 2011-2012 school year because no documentation exists for these queries. However, we were unable to determine which students belonged in the third priority category of students for the 2011-2012 school year because a key variable necessary for this calculation appears to be unreliably populated. In other words, it does not appear possible to use the Trust's database to derive this priority category and puts in question the Trust's ability to provide accurate priority categories for the OSP lottery.

#### Weaknesses in Data Entry Process

Lastly, data entry of application information is also problematic. In addition to basic eligibility information, OSP applications also include important information needed for the third-party evaluation of the OSP program. According to Education officials, the evaluation timelines have been negatively affected for the 2011-2012 and 2012-2013 school years because data entry was not completed in a timely manner. In one instance the Trust had to retrieve hard copies of the applications from storage and send relevant application data to the officials involved in the evaluation because they were so behind in data entry. Education officials stated that there may have been a lack of clarity regarding the specific information the Trust was supposed to enter into the database and that delays resulting from untimely data entry should not be an issue going forward.

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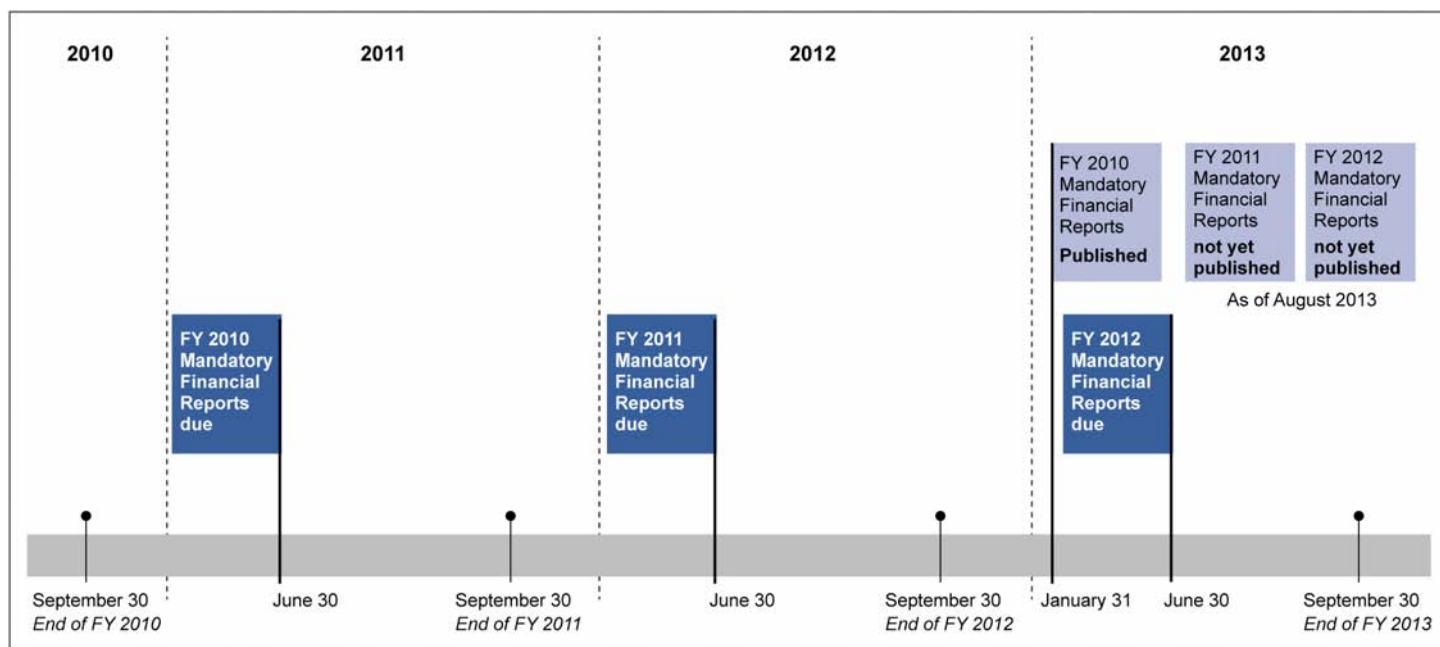
#### The Trust Has Not Filed Its Mandatory Financial Reports on Time

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, which would be June 30th for an entity with a September 30th fiscal year end, such as the Trust. The Trust's Financial Statements, Schedule of Expenditures of Federal Awards, and Independent Auditors' Reports Required by Government Auditing Standards and OMB Circular A-133 for the Year Ended September 30, 2010, were issued on January 31, 2013—more than 2 years after the end of its 2010 fiscal year. Until this report was issued, Education did not have the financial reports required to properly account for the federal funds expended for OSP under the Trust's administration. According to Trust officials, the 2010 audit was delayed because of a need to change audit firms and ongoing investigations regarding its finances related to other grants.

The issue of delayed reports has not been resolved. As of August 2013, the Trust's audited financial statements for fiscal year ending September 30, 2011, and 2012 have not been issued yet (see fig. 4). On August 9, 2013, Trust officials told us that the final fiscal year 2011 audit is expected to be completed by the end of August 2013 and the fiscal year 2012 audit

will not be completed before September 2013.<sup>29</sup> As a result of the Trust's delay in submitting mandatory financial reports there was no opportunity for formal oversight of federal dollars spent on OSP for almost 2 years under the Trust's administration. In addition, the continued delay in the audit reports means the Trust has not taken actions on deficiencies found in each audit in a timely manner to mitigate further issues.

**Figure 4: The Trust's FY 2010-2012 Timeline of Mandatory Reporting Deadlines and Report Publication for OSP, as of August 9, 2013**



Source: GAO.

<sup>29</sup> In their written comments on a draft of this report in September 2013, the Trust and Education officials stated that the Trust had submitted its fiscal year 2011 mandatory financial reports.

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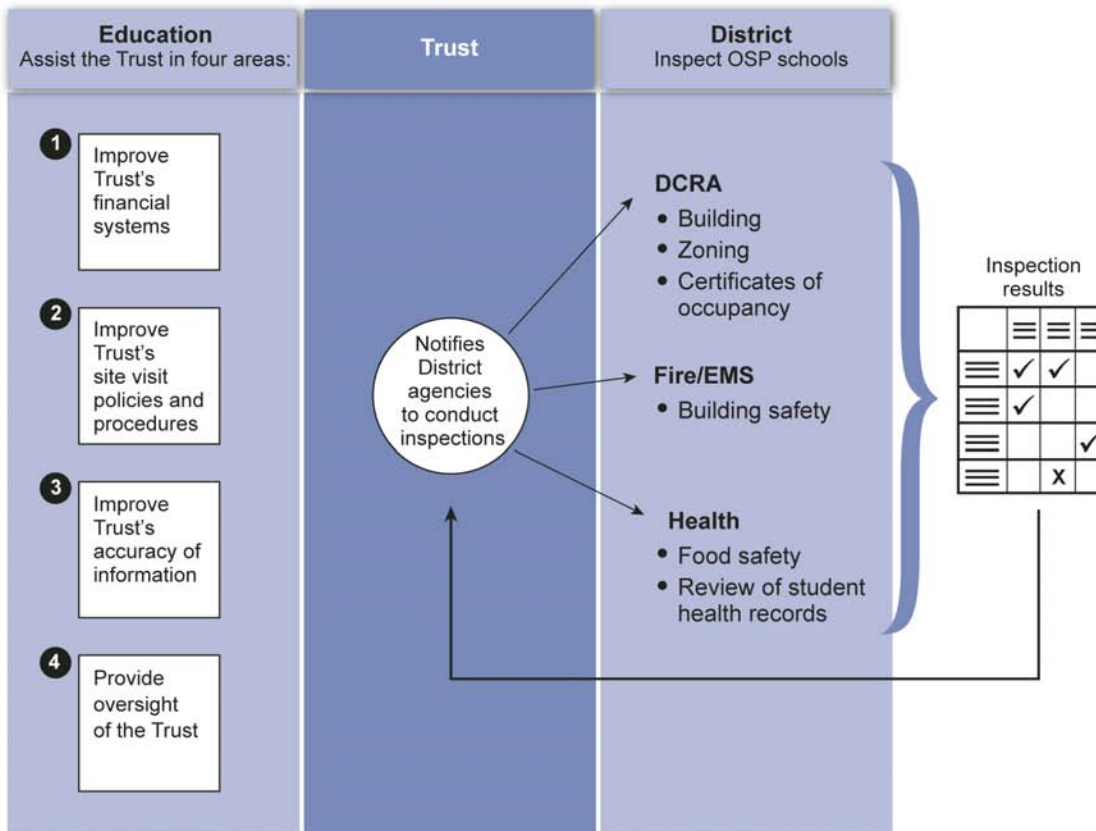
## Agencies Have Not Fully Executed Responsibilities Outlined in Governing Documents

The SOAR Act requires that the Secretary of Education and the Mayor of the District of Columbia enter into a memorandum of understanding (MOU) that addresses how OSP will be implemented. The MOU, which was agreed upon by Education and the District in June 2012, is intended to help ensure the efficient and effective implementation of OSP in a manner that incorporates and is consistent with the roles and responsibilities of Education and the District. It describes, for example, offices and officials within Education and the District that have lead responsibility for implementing OSP, issues and areas on which Education and the District will collaborate, and specific activities that Education and District agencies, such as the Department of Consumer and Regulatory Affairs (DCRA), Fire and Emergency Medical Services (EMS), and the Department of Health will carry out. According to the MOU, Education is responsible for working with the Trust to improve certain aspects of the administration of OSP. The District is responsible for conducting regulatory inspections of participating schools—upon notification by the Trust—and providing the Trust with the results of those inspections (see fig. 5).<sup>30</sup>

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<sup>30</sup> As noted previously, the Trust is not a party to the MOU, nor is it identified by name in the MOU. Instead, the MOU refers to the OSP grantee. However, for ease of reference, in this report, we refer to the MOU as though it does specifically identify the Trust as the OSP grantee.

**Figure 5: Responsibilities of Education and District Agencies as Stated in the June 2012 Memorandum of Understanding**



Source: GAO analysis of OSP Memorandum of understanding.

In addition, Education entered into a cooperative agreement with the Trust to set forth the responsibilities of each entity for implementing OSP as required by the SOAR Act and the Education Department General Administrative Regulations. Education and Trust officials signed the cooperative agreement in June 2013, 3 years after the grant for OSP had been transferred to the Trust. Education officials stated that, among other reasons, the cooperative agreement had not been developed any earlier because of substantial turnover in staff at the Trust. Education officials stated they wanted to wait to implement the agreement until the Trust's staff had stabilized. Trust officials stated that the cooperative agreement was an opportunity to codify the various ways in which Education and the Trust would assist each other in implementing the program. Through the

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cooperative agreement, Education also agreed to assist the Trust in the same four areas stated in the MOU.

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### Education Has Provided Limited Assistance to the Trust

Education has provided limited assistance to the Trust as agreed upon in the MOU and cooperative agreement governing OSP. Trust officials acknowledged that they have not proactively sought Education's assistance in these areas. They told us that although they have had several discussions with Education regarding the general administration of the program and operational issues, they have not had opportunities to discuss lessons learned or making improvements in certain areas of program administration.

### Improvements to Financial Systems

Through the MOU and cooperative agreement, Education is responsible for helping the Trust ensure that it implements appropriate improvements to its financial system. However, according to Trust officials, Education has not undertaken any activity to help improve its financial systems and the Trust has not had any conversations with Education about doing so. Education officials told us that the Trust's financial systems were an improvement over the previous administrator's financial system and that they have not had to closely manage the Trust in this area. However, as previously discussed, the Trust's policies and procedures do not provide specific guidance on allocating certain administrative expenses and the Trust does not have detailed policies and procedures outlining the bank reconciliation process. Further, as a result of the Trust's tardiness in submitting mandatory financial reports, the Trust was unable to account for federal dollars spent on OSP for about 2 years after the end of fiscal year 2010.

### Site Visit Policies and Procedures

Education has not assisted the Trust in developing, implementing, or updating its policies and procedures for conducting site visits, as specified in the MOU and cooperative agreement. According to Education officials, as long as the Trust maintained the procedures used by the previous administrator, there was no need to revise its site visit procedures. When we spoke to Trust officials, however, we were told that although Education has not assisted with its site visit policies and procedures, the Trust updates its procedures every year and provides them to Education for review. Additionally, Education told us that it did not have any concerns with the timing of the Trust's site visits, even though the Trust did not conduct site visits for the 2012-2013 school year until February 2013—the second semester of the school year.

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## Information Provided to Families

According to the MOU and cooperative agreement, Education agreed to assist the Trust in developing procedures to improve the accuracy of information provided to families before they choose a participating school and encourage schools to make such information available on an annual basis to families of enrolled students. Education officials stated that they meet with the Trust at the start of each school year to discuss marketing and recruitment, the participating school fair, and how to engage with families, and to provide feedback on these aspects of OSP as needed. For example, Education worked with the Trust to publish the school Directory for the 2012-2013 school year. Education did not have any concerns with the accuracy of the information provided to families for the purpose of selecting a school to attend. According to the Trust, Education relies on it to verify that schools are providing parents with such information. However, as discussed earlier, the school Directory does not include complete information about schools' tuition, fees, and accreditation that families need to make informed school choices.

## Oversight

In addition to the responsibilities described above, Education is also responsible for providing oversight of the Trust as a recipient of federal funds. According to Education officials, its role is to identify a grantee to administer OSP and ensure that the grantee adheres to applicable federal law and regulations. Education monitors the Trust with regard to (1) progress in implementing OSP; (2) financial records; and (3) data records, including records on student placements and numbers of scholarship awards. The activities that Education conducts as part of its oversight of the Trust are documented in the cooperative agreement between Education and the Trust and it conducts ongoing reviews of the Trust's activities to ensure satisfactory performance under the cooperative agreement. Education officials stated that the cooperative agreement was developed, in part, to increase its oversight of the Trust. For example, Education used the cooperative agreement to institute reporting requirements and clarify program rules. Officials said they also recognized the need for a closer partnership with the Trust and stated that the cooperative agreement was an opportunity to clearly describe the Trust's expectations.

Education officials also told us that they provide guidance and technical assistance to the Trust. For example, Education officials told us they participate in conference calls with Trust officials, review the Trust's annual performance report and monitoring plans, and provide ongoing technical assistance. Education officials also stated that they conduct regular, ongoing desk monitoring of the Trust, and will also conduct biannual site visits with the Trust beginning in the fall of 2013. If there

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were any problems with safeguarding OSP funds, Education officials stated they would work with the Trust to correct the problem or, if necessary, they could penalize the Trust through actions such as freezing and withholding funds, recovering funds, and ensuring that the grant cannot be renewed.

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### Requirements Under the MOU Are Not Being Met

The MOU requires that the District conduct inspections necessary for schools to participate in OSP “upon notification by the grantee (the Trust),” but required inspections are often not being conducted. For example, the MOU requires the District Government, upon notification by the Trust, to conduct regulatory inspections of all program schools to determine whether they have a current certificate of occupancy. The District’s DCRA issues certificates of occupancy and conducts inspections based on the types of building or trade permits that schools have. A DCRA official, however, stated that it relies on the permit holder to make requests for all required inspections. Also, the District’s Fire and EMS Department is responsible for conducting biennial inspections or otherwise determining whether participating schools comply with applicable District health and safety requirements, as required by the MOU. However, a Fire and EMS official stated that private schools are not subject to regular inspections. Trust officials told us they did not know whether participating schools had been inspected by the District agencies. Lastly, officials at schools we visited told us that certain District agencies had conducted some inspections but not specifically for OSP. Rather, they occurred for other reasons, such as general inspections for schools that offer special education or early childhood services.

The MOU also states that the District should provide information to the Trust regarding whether participating schools are in conformance with District requirements. The Trust’s understanding of this requirement is that the District should be providing the inspection results on a regular basis without being specifically asked by the Trust. However, Trust officials told us they do not receive any information from the District as a result of any inspections that may have been conducted at participating schools. And according to the Trust, it does not follow up with District agencies to inquire about the results of any of the inspections.

Although the MOU is a written agreement between Education and the District, it includes a responsibility for the Trust. Specifically, the MOU states that the Trust—as the grantee—is responsible for notifying District agencies to conduct these required inspections of participating private schools. Given that the Trust is responsible for ensuring that participating

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schools continue to be eligible to receive federal dollars through OSP, notifying the District agencies can be important in ensuring appropriate oversight of participating schools. This activity can be especially important for agencies like the District's Fire and EMS department that do not normally inspect private schools. However, because the Trust is not a signatory to the MOU, Trust officials were not acutely aware that they were responsible for notifying the District agencies. Furthermore, the cooperative agreement between Education and the Trust does not include this requirement for the Trust to notify District agencies. Officials from the Trust stated that they assumed that District agencies conducted inspections of private schools as a matter of process, without the Trust prompting them to do so. As a result, activities that are crucial to the successful implementation of the program—such as building, zoning, health, and safety inspections—may not be occurring for all participating schools.

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## Conclusions

The OSP is intended to afford District families the opportunity to attend higher-performing schools of their choice and have all or part of the cost of attendance paid. In order to make well-informed decisions, however, families need complete and timely information on schools' tuition, fees, and accreditation, as well as timely scholarship awards. Since taking over OSP, the Trust has not provided such information to families in a timely manner, requiring families to make less-informed decisions near the beginning of the school year, when many schools no longer have places for admission.

The Trust needs to improve program management and operations to assure efficiency and effectiveness. Currently, it does not effectively oversee participating schools, has not implemented effective policies and procedures, and is unable to efficiently manage day-to-day program operations. As a result, families may believe that participating schools fully meet program requirements, although the Trust cannot ensure that these schools meet them. In August 2013, the Trust made amendments to its policies and procedures manual regarding the financial review performed on schools, administrative expenses, and bank reconciliations. However, these amendments do not address all weaknesses identified in this report, and they have not yet been fully implemented. Without sufficiently detailed policies and procedures for all aspects of the Trust's operation, the Trust cannot sufficiently monitor its own operation of the program and may not be able to account for all federal dollars spent on OSP. Additionally, because of the weaknesses in its program database, the Trust cannot efficiently manage day-to-day operations of the program.



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The weaknesses that we have identified highlight the need for sustained oversight and management attention to ensure efficient and effective program implementation and accountability over federal funds. However, Education has provided the Trust with limited assistance in specific areas stated in the MOU and the cooperative agreement governing the program. Furthermore, the Trust is unsure whether key activities crucial to the successful implementation of the program—inspections for compliance with the District’s building, zoning, health, and safety requirements—are being conducted. Under the MOU, the inspections are to be done upon the Trust’s notification to District agencies, but the Trust is not a signatory to the MOU. Moreover, the cooperative agreement between Education and the Trust is silent regarding the responsibilities of the Trust on this issue. The Trust’s limited ability to effectively oversee participating schools coupled with the weaknesses in the Trust’s internal control environment underscore the need for Education to conduct more rigorous oversight and monitoring of the Trust. Not only would increased oversight help ensure that the Trust is administering the program effectively, but it would also help ensure that OSP achieves its intended purpose as outlined in the SOAR Act.

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## Recommendations for Executive Action

To ensure families receive expanded opportunities for school choice and OSP is implemented and overseen effectively, we recommend that the Secretary of Education take the following actions:

- Revise the June 2013 cooperative agreement between Education and the Trust to include Education’s expectations for the Trust regarding collaboration with District agencies to ensure they conduct required building, zoning, health, and safety inspections.
- Work with the Mayor of the District of Columbia to revise the memorandum of understanding that governs OSP implementation to include processes that will help ensure that the results of OSP school inspections, when they are conducted, are communicated to the Trust.
- Explore ways to improve Education’s monitoring and oversight of the Trust. For example, Education could require the Trust to develop and implement a plan for how it will address its timeliness in mandatory financial reporting.
- Conduct activities to ensure that the Trust:

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- publishes the school Directory prior to participating schools' application deadlines with more complete information.
  - more closely aligns its scholarship timeframes with schools' admissions and enrollment schedules. Education could find ways to assist the Trust in executing the OSP lottery earlier in the school year, for example, by allowing the Trust to use the prior year's income information to make preliminary determinations regarding eligibility.
  - improves its OSP database by creating and maintaining documentation for the use of the database, adding automated checks to the system, creating flags and/or variables for the key priority categories called for in the SOAR Act, and streamlining the data entry process for new applications in order to ensure there is sufficiently reliable data regarding the operation of the program.
  - Require the Trust to update its policies and procedures in several key respects, and monitor the Trust's activities to ensure that these updates are made. These updates should include:
    - identifying the steps the Trust will take to verify reported information on participating schools' compliance with reporting and program requirements specified in the SOAR Act.
    - identifying the specific risks that should be included in the evaluation performed when assessing participating schools' financial sustainability information, including a record of the analyses performed, and ensure that the conclusions reached with regard to schools' financial sustainability are documented.
    - specifying a process for addressing schools that are noncompliant with program requirements.
    - providing more detailed procedures in key areas including calculating yearly administrative expenses, and performing monthly and year end reconciliations of the OSP bank account, and ensure the document reflects current practices and that key decisions associated with administrative expenses are documented.

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## Agency Comments and Our Evaluation

We provided a draft of this report to Education, the Office of the Mayor of the District of Columbia (the District), and the DC Children and Youth Investment Trust Corporation (the Trust) for comment. Education officials provided technical comments, which were incorporated into the final report as appropriate. Written comments from Education and the Trust are reproduced in appendices V and VI, respectively, and are also summarized below. The District did not provide written comments on the draft report. In its comments, Education did not indicate agreement or disagreement with our recommendations. The Trust generally agreed with our recommendations, but disagreed with some of the findings. Both Education and the Trust provided additional information on issues raised in the report.

In its letter, Education stated that it took the issues raised in the GAO report seriously and would continue to consider them carefully, but noted that the report did not fully reflect the Trust's efforts to provide complete and timely information about participating schools to OSP families. However, in our final report, we discuss a number of different ways in which the Trust provides information and assistance to current and prospective OSP families, and we believe we adequately reflected the Trust's efforts. Education also noted that the report does not fully recognize the significant staff turnover in leadership at the Trust, which affected several aspects of the Trust's implementation of the program in school year 2012-2013. We recognize that the Trust faced a number of challenges as it assumed responsibility for the program. However, several issues that we identified in the report are not new, but rather contribute to long-standing weaknesses in internal controls and oversight of the program. Therefore, we believe that if Education had provided more effective oversight of the program and more timely technical assistance to the Trust, many of the challenges identified in the report could have been addressed sooner. In addition, more effective internal controls, including robust policies and procedures for program administration and school oversight, could have helped to smooth the difficulties associated with the transition in leadership and program administration.

The Trust disagreed with our finding that its Participating School Directory provided incomplete and untimely information. More specifically, in its comments, the Trust emphasized that this condition does not exist under the current management and administration of OSP and that the Trust provides information through a comprehensive array of tools, events, and individualized assistance. We acknowledge the substantial change in staff that occurred at the Trust and discuss in our report the number of ways in which the Trust provides assistance to families through channels other

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than the Directory. However, the most recent Directory—a key source of school information for families—was still published too late and contained incomplete information about tuition, fees, and accreditation. Education’s written comments focus on the Trust making a deliberate decision to maintain a reasonably sized, user-friendly directory with straightforward information on average tuition and fees and on the efforts of the Trust to provide individualized ongoing assistance to families and assistance through school placement fairs. We agree that the Directory must be prepared for a non-technical audience, but continue to believe that for a program predicated on choice, it is imperative that the Trust provide families with complete and timely information needed to make informed decisions, especially with respect to tuition and fees. The Trust could accomplish this without overburdening families with excessive information by using a general notation for schools that have discounted or different tuition rates, as the Trust noted in its written comments, or providing a range of the potential total cost of attendance for families. As the Trust indicated in its letter, it could also include more accurate notation of school-accrediting bodies. We support the Trust’s efforts to update the Directory for future school years by including more complete information for OSP families.

In addition, in its comments, Education noted that substantial changes in the Trust’s staff and leadership transition affected the timing of the Trust’s site visits at participating schools. As we discuss in our report, these circumstances resulted in site visits occurring later in the year, which in turn affected the timeliness of the Directory’s publication. We acknowledge that this is not a routine practice of the Trust and encourage the Trust to continue to work toward conducting these site visits earlier in the school year and publishing the Directory earlier. We also support Education’s plans to work with the Trust to provide the Directory prior to participating schools’ application deadlines. The plan to publish the Directory by December 2013 for the 2013-2014 school year, and by November in future school years, represents a marked improvement in the timeliness of the school directories. However, we maintain that families need to have information about schools prior to participating schools’ application deadlines. We encourage Education and the Trust to consider publishing the Directory earlier than November or December to help families start making school decisions as early as possible in the scholarship application process, ensuring that families have the full range of school options available to them.

In response to GAO’s finding regarding the misalignment of scholarship awards with participating schools’ admissions and enrollment schedules,

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Education expressed concern that an earlier scholarship lottery date could, among other things, result in the Trust conducting less outreach to potential applicants. We acknowledge the steps that Education identified the Trust needs to take prior to the lottery, such as screening applications for eligibility, conducting multiple rounds of baseline testing, and ensuring that the lottery pool of eligible applicants is sufficient so that the evaluation can proceed with the necessary sample size. Education stated that the Trust would need to submit a proposal to Education if it wanted to use a different approach for screening student eligibility, such as using a different year's income information, that could help expedite the steps leading up to the lottery. We support Education's consideration of any proposal to use a different approach that would ultimately enable the Trust to award scholarships earlier and ensure that OSP families have the widest range of choice possible, and we would encourage the Trust to fully consider the issues, and if it deems it appropriate, develop such a proposal for Education's consideration.

The Trust also disagreed with our finding regarding its lack of policies and procedures for implementing and overseeing OSP, stating that its policies and procedures manual clearly and accurately reflects the policies and procedures governing the program. Further, the Trust stated that although amendments to the policies and procedures regarding allocation of costs and reconciliation were codified in August 2013, these policies were in practice prior to that date. GAO applauds the Trust's efforts to increase oversight of participating schools and update their policies and procedures accordingly. Despite the Trust's claims that these policies and procedures were already in practice, GAO does not consider these policies and procedures fully implemented until these activities take place on a regular basis. In addition, the Trust's revised policies and procedures do not address all of the weaknesses for which GAO recommended action, such as developing a process for addressing schools that are noncompliant with program requirements. Education commented that the Trust's proposed revisions to the letter of agreement with participating schools reserves the Trust's right to limit or suspend a school's participation in OSP and that any OSP schools that require further discussion about compliance would be handled on a case-by-case basis. However, we continue to believe that the Trust needs to develop a more clearly defined, comprehensive written policy to address schools that are noncompliant.

With regard to weaknesses GAO identified in the structure of the Trust's database, the Trust stated they would take GAO's comments under advisement and consider key changes and improvements. The Trust

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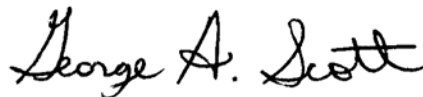
stated that the database is proficient in areas such as determining student eligibility, student invoicing, school oversight documentation tracking, and notation of communication with individual families and schools. The Trust also noted that they must use outside spreadsheets to complete any reporting on historical information about the program, and that automated checks do not exist, but the database does not impede data collection or identification of student sub-groups for inclusion in the scholarship lottery (referred to in this report as “priority categories”). Based on our review, we continue to believe that the Trust’s ability to determine the third priority category described in the SOAR Act—applicants who received an OSP scholarship award in a previous year but did not use it—is questionable because, according to GAO’s analysis, a key variable in the database used to determine this priority category is not reliable.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to relevant congressional committees, the Secretary of Education, the Mayor of the District of Columbia, the Executive Director of the District of Columbia Children and Youth Investment Trust Corporation, and other interested parties. 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 should have any questions about this report, please contact me at (202) 512-7215 or [scottg@gao.gov](mailto:scottg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.

Sincerely yours,



George A. Scott  
Director, Education, Workforce,  
and Income Security Issues

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# Appendix I: Scope and Methodology

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We reviewed relevant federal and District laws and regulations and analyzed key documents from the DC Children and Youth Investment Trust Corporation (Trust), the federal Department of Education (Education), and participating schools, as well as generally accepted guiding documents for internal controls including those published by GAO and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).<sup>1</sup> We also conducted site visits at 10 of the 53 participating private schools in the program and interviewed relevant school officials. In addition, we conducted two discussion groups—one in English and one in Spanish—with parents and guardians of students who received and used an Opportunity Scholarship Program (OSP) scholarship in the 2012-2013 school year. We also interviewed key officials at the Trust, Education, and select agencies in the District, as well as representatives of accreditation organizations and nonprofit tuition assistance organizations. In addition, we analyzed the structure of the Trust's database and the Trust's program data.

We conducted this performance audit from May 2012 to September 2013 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 based on our audit objectives.

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## Review of Program Documents

To determine the types of information available to families and the types of schools participating in OSP, we reviewed the Trust's Participating School Directory (the Directory) for school years 2010-2011, 2011-2012, and 2012-2013. We also reviewed the list of participating schools available to families at the beginning of the 2012-2013 school year and compared it to the Directory when it was issued in May 2013 to determine if there were any discrepancies. We also examined OSP application materials as well as documents given to OSP families at the 10 participating schools we visited. These documents included application materials, tuition and fees information, and notices sent to families, such

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<sup>1</sup>We used the COSO internal control framework as opposed to GAO's *Standards for Internal Control in the Federal Government* (Green Book) to assess internal controls because the Trust is a non-profit organization and the Green Book primarily applies to federal agencies.

as school newsletters and notices about safety incidents occurring in and around the school.

To determine the types of information participating schools submit to the Trust, we reviewed schools' Key School Data Forms. These forms include information on a school's enrollment, facilities, number of days of instruction, curriculum, and services offered and are used by the Trust to compile the Directory. We also reviewed schools' Tuition and Fees forms to estimate a student's total cost of attendance. Given the variation in fees among participating schools, we estimated the total cost of attendance using several assumptions, such as full-time attendance for one school year for a new OSP student. We also used information provided by schools about their admissions requirements and deadlines to determine how their application deadlines aligned with scholarship award timeframes implemented by the Trust.

To determine the extent to which the Trust implemented internal controls over financial transactions and program administration, we reviewed the Trust's financial management policies and procedures. We also reviewed the Trust's financial statements, schedule of expenditures of federal awards, and independent auditors' reports required by government auditing standards and OMB Circular A-133 for the year ending September 30, 2010. In addition, we reviewed the Trust's administrative expense report and copies of monthly and annual bank reconciliations and reviewed relevant federal laws and regulations. To determine the roles and responsibilities of the Trust, Education, and the District, we examined the grant transfer agreement between the Trust, the Washington Scholarship Fund, and Education; the memorandum of understanding between Education and the District of Columbia Government; and the cooperative agreement between Education and the Trust.

To determine the Trust's assessment of participating schools' financial stability, we reviewed fiscal year end 2010-2012 financial statements and other documentation submitted by schools, such as management letters and reports. We also reviewed forms submitted by schools, such as the School Participation Verification Forms, to determine the mechanism by which schools attest to the veracity of the information they submit. In addition, we reviewed COSO's standards for internal controls for non-federal entities.



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## Analysis of Program Data from the OSP Database

To determine several aspects of the Trust's administration of OSP, we requested program data from the Trust, including participating school characteristics, OSP student enrollment at participating schools, student eligibility determination, scholarship payments, and student characteristics, including the priority categories for awarding scholarships as stated in the SOAR Act. We received program data from the 2004-2005 school year, the first year in which the program was administered by the Washington Scholarship Fund, to the 2011-2012 school year. We assessed the reliability of the data through performing electronic testing for obvious errors in accuracy and completeness and interviewing agency officials knowledgeable about the data. We found substantial problems with the data, including missing fields or partially entered applications. As we previously stated in this report, the lack of documentation for the database made it difficult to understand which fields were current or still in use. As a result, we limited the scope of our analyses to data from the 2011-2012 school year, the most recent and complete year of data available at the time of our review. We determined that these data were sufficiently reliable for the purposes of our report.

## OSP Student Enrollment

The Trust did not have a documented query or process to determine the number of OSP students enrolled at each participating school. Following the instructions from the Trust's data contractor, we initially determined the number of OSP students at each school by using variables representing the year, student and school identifiers, student school placement, and the number of days the student was enrolled. We found, however, that there was an extensive number of missing values for several of the key variables needed to complete this analysis. As a result, we determined that we could not use this method of calculating OSP enrollment. Instead, we calculated OSP enrollment by using a count of student identifiers by school and payment information.<sup>2</sup> We also analyzed OSP student enrollment by race and ethnicity to determine the demographic characteristics of OSP students enrolled at each participating school.

## Priority Categories for Awarding OSP Scholarships

Under the SOAR Act, Education is required to give priority to grantee applicants that will most effectively give priority to:

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<sup>2</sup> We considered three alternatives to determine OSP student enrollment: (1) a count of student identifiers and student placement in a school; (2) a count of student identifiers and payment information; and (3) a count of student identifiers by school and payment information. We ultimately used the third approach.

1. Students who, in the preceding year, attended a public school in the District that was identified as a school in need of improvement, corrective action, or restructuring under the Elementary and Secondary Education Act of 1965, as amended.
2. Students who previously were awarded a scholarship in a preceding year but have not used the scholarship, specifically emphasizing students that were awarded a scholarship for the first time in 2009-2010, when the 216 new scholarships awarded that year were rescinded by the Department of Education.
3. Students that have a sibling participating in OSP.

To assess the Trust's application of these priority groups for the 2011-2012 school year, we attempted to replicate the Trust's process for determining the number of students in each priority group. Since the Trust has not documented these processes, we determined the number of students in two of these priority groups—those attending a school identified for improvement and those with a sibling in the program—using detailed queries and clarifications from the Trust's contractor. Despite employing several different approaches, our results did not corroborate the Trust's results for these two categories. We were unable to determine a reliable number of students in the third priority group—those who were previously awarded a scholarship but had not used it. We found that one of the key variables Trust officials use to determine this category was unreliable. As a result, we could not use other variables in its place to reliably determine the number of students belonging in this group.

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## Site Visits to Participating Schools

To review aspects of participating schools' compliance with program rules and regulations, as well as their admissions and enrollment processes, we conducted site visits to 10 participating schools (see table 2). During these visits, we interviewed key school officials; reviewed documents, including certificates of occupancy, health certificates, and teacher credentials; and toured school facilities. We also interviewed finance officers at these schools to determine the schools' financial stability and the types of financial information schools submit to the Trust.

## Site Visit Selection Criteria

We selected a nongeneralizable sample of 10 schools to visit based on two criteria: (1) the percentage of OSP students enrolled and (2) the largest number of OSP students enrolled. Using this approach allowed us to visit schools that potentially were almost entirely funded by OSP scholarships as well as schools that were receiving the most absolute OSP dollars. We used student enrollment data obtained from the Trust for

the most recent school year available (2011-2012) as well as information from the 2011-2012 Directory.<sup>3</sup>

Using these criteria, we determined the sample of 10 schools to visit by selecting 5 schools with the highest concentration of OSP students relative to the total school enrollment and 5 schools with the highest number of OSP students, as shown in table 2.

**Table 2: GAO Site Visit Priorities Based on Student Enrollment Criteria, School Year 2011-2012**

	<b>OSP school name</b>	<b>OSP students as percentage of enrollment</b>	<b>Total OSP enrollment</b>	<b>Total school enrollment</b>
1	Academia de la Recta Porta International Christian Day School <sup>a</sup>	108	54	50
2	Academy for Ideal Education	93	67	72
3	Preparatory School of DC	88	79	90
4	The Bridges Academy	86	98	114
5	Roots Activity Learning Center	82	14	17
6	Archbishop Carroll High School	37	164	449
7	Calvary Christian Academy	62	124	201
8	St. Augustine Catholic School	49	102	207
9	St. Francis Xavier Catholic School	44	96	220
10	St. Thomas More Academy	57	94	165

Source: GAO analysis of DC Child and Youth Investment Trust Corporation program data.

<sup>a</sup>As we previously explained, given the Trust’s lack of a documented process for determining OSP enrollment at participating schools, we determined the number of OSP students enrolled based on whether the student was placed at each school and whether or not a payment was made. Based on this approach, the number of OSP students enrolled at this school exceeded the number of total students enrolled.

In order to develop these criteria, we made multiple requests for information from the Trust and made several clarifying inquiries to ensure

<sup>3</sup> The Trust had some combined student enrollment data for three schools with multiple campuses including Dupont Park Adventist School (Alabama Avenue and Massachusetts Avenue locations), Washington International School (Primary and Tregaron campuses), and Washington Middle School for Girls (THEARC and Washington View campuses). In these instances, we treated these individual campuses as one school.

the accuracy of our approach. After we completed this analysis, through the course of additional interviews with the Trust, we learned there were some additional types of records in the Trust's database that we needed to exclude to execute a more exact query for OSP enrollment. However, we received this information several months after nearly all the site visits were conducted.

To provide balance, we also spoke with National Presbyterian School and Aidan Montessori School—two schools that historically had few or zero OSP students enrolled—to determine what factors impact their interest and ability to enroll OSP students. We selected these schools based on our analysis of the Trust's 2011-2012 data on the number of OSP students enrolled at participating schools.

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### Discussion Groups with Parents and Guardians of OSP Students

To better understand families' experiences with OSP, we conducted two semi-structured discussion groups with parents and guardians of students who received and used an OSP scholarship in the 2012-2013 school year. To ensure we had a diverse group of parents, we conducted one group in English and one group in Spanish. The Trust recruited parents and guardians to participate in these groups by randomly selecting 75 to 100 English-speaking and Spanish-speaking parents/guardians. Of these randomly selected parents and guardians, 14 participated in these discussion groups. Although asking the program administrator to recruit participants may result in a biased group of participants, the Trust staff knew this population best and could most effectively reach out to this group. As a result, the extent to which these participants represent all OSP families is unclear, and the results of these discussion groups are not generalizable to the entire population of OSP families.

The Trust e-mailed letters written by GAO in both English and Spanish to parents explaining the purpose of the discussion groups and encouraging their participation. Two discussion groups were held in December 2012 and were about 1 to 2 hours in length. To ensure participants' privacy, parents and guardians were asked to use alternate first names during the discussion.

In each of the discussion groups, we covered the following topics:

- reasons why parents were drawn to the OSP;
- how they found out about the program;

- the school selection and application process; and
- their children’s experience at their OSP schools.

Following the discussion group, we asked participants to provide us with some basic background information in a short voluntary questionnaire. Thirteen of the 14 participants completed the questionnaire, which we provided in both English and Spanish. After we conducted the groups, we obtained transcripts of both groups to ensure the accuracy of the groups’ discussions. For the discussion group conducted in Spanish, we obtained a transcript in Spanish as well as a translation in English to ensure the accuracy of the translation.

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## Interviews

We interviewed officials at the Trust to determine how they administered OSP, their relationship with Education and the District, and their internal control activities. During one of these interviews with Trust officials, we conducted a walk-through where Trust staff demonstrated how they enter and maintain their database. To better understand how the Trust manages its database, we interviewed Trust officials and the Trust’s contractor, who is responsible for maintaining the database. To determine Education’s role in OSP and their relationship with OSP and the Trust, we interviewed officials at Education’s Office of Innovation and Improvement and Institute of Education Sciences. To understand the scholarship lottery process and how OSP is evaluated, we interviewed officials from Education and Westat, the contractor responsible for conducting the lottery. To understand the relationship between the District, Education, and the Trust, and to specifically understand the execution of the MOU, we interviewed officials at key agencies in the District, such as the Office of Deputy Mayor for Education and the Office of the State Superintendent for Education. We also requested and received written responses to key questions from certain District agencies, including the Department of Health, the Department of Consumer and Regulatory Affairs, and the Fire and Emergency Medical Services Department. To determine the significance and role of accreditation, we spoke with representatives from Middle States Association of Colleges and Schools Commissions on Elementary and Secondary Schools, Association of Independent Maryland & DC Schools, and AdvancED. We also spoke with Independent Education, an association of private independent District-area schools that requires its member schools to be accredited. To better understand the role played by nonprofit organizations that provide additional private school tuition assistance, we interviewed representatives from the Archdiocese of Washington, Latino Student

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Fund, Capital Partners for Education, and the Jack Kent Cooke Foundation's Young Scholars Program.

# Appendix II: Schools That Agreed to Accept Students in the District’s Opportunity Scholarship Program in School Years 2010-2011 and 2011-2012 (“Participating Schools”)

School name	Agreed to participate in OSP in 2010-2011 school year	Agreed to participate in OSP in 2011-2012 school year
Academia De La Recta Porta International Christian Day School	X	X
Academy for Ideal Education	X	X
Adventureland School	X	
Aidan Montessori School	X	X
Annunciation Catholic School	X	X
Archbishop Carroll High School	X	X
Beauvoir – National Cathedral Elementary School	X	X
Bishop John T. Walker School for Boys	X	X
Blessed Sacrament School	X	X
The Bridges Academy	X	X
Calvary Christian Academy	X	X
Capitol Hill Day School	X	X
Christian Family Montessori School		X
Cornerstone School	X	X
Dupont Park Adventist School	X	X
Edmund Burke School	X	X
Emerson Preparatory School	X	X
Georgetown Day School	X	X
Georgetown Visitation Preparatory School	X	X
Gonzaga College High School	X	X
Holy Trinity School	X	X
Howard University Early Learning Program	X	X
Kingsbury Day School	X	X
Kuumba Learning Center (MLK Campus)	X	X
Little Flower Montessori School	X	X
Lowell School	X	X
Metropolitan Day School	X	X
The Monroe School	X	X
Muhammad University of Islam	X	X
Nannie Helen Burroughs School	X	X

**Appendix II: Schools That Agreed to Accept Students in the District's Opportunity Scholarship Program in School Years 2010-2011 and 2011-2012 ("Participating Schools")**

<b>School name</b>	<b>Agreed to participate in OSP in 2010-2011 school year</b>	<b>Agreed to participate in OSP in 2011-2012 school year</b>
National Cathedral School	X	X
National Presbyterian School	X	X
Naylor Road School	X	X
Our Lady of Victory School	X	X
Parkmont School		X
Preparatory School of DC	X	X
Randall Hyland Private School	X	X
Roots Activity Learning Center	X	X
Sacred Heart School	X	X
San Miguel School	X	X
Sheridan School	X	X
Sidwell Friends School	X	X
St. Albans School	X	X
St. Ann's Academy	X	X
St. Anselm's Abbey School	X	X
St. Anthony School	X	X
St. Augustine School	X	X
St. Francis Xavier Academy	X	X
St. John's College High School	X	X
St. Peter School	X	X
St. Thomas More Academy	X	X
Washington International School	X	X
Washington Jesuit Academy	X	X
Washington Middle School for Girls (THEARC & Washington View Campuses)	X	X
<b>Total number of participating schools</b>	<b>52</b>	<b>53</b>

Source: District of Columbia Children and Youth Investment Trust Corporation.



# Appendix III: Total School and OSP Enrollment, School Year 2011-2012

School name	Grades served	Total school enrollment	Total OSP students
Academia De La Recta Porta Intl Christian Day School	K-12	50	54
Academy for Ideal Education	K-12	72	67
Aidan Montessori School	PK-6	199	0
Annunciation Catholic School	PK-8	139	34
Archbishop Carroll High School	9-12	449	164
Beauvoir-National Cathedral Elem. School	PK-3	400	1
Bishop John T. Walker School for Boys	PK-2	55	9
Blessed Sacrament School	K-8	516	9
The Bridges Academy	PK-8	114	98
Calvary Christian Academy	K-8	201	124
Capitol Hill Day School	PK-8	212	2
Christian Family Montessori School	PK-6	102	0
Cornerstone School	PK-10	149	66
Dupont Park Adventist School <sup>a</sup>	PK-10	203	86
Edmund Burke School	6-12	277	4
Emerson Preparatory School	9-12	43	15
Georgetown Day School	PK-12	1075	1
Georgetown Visitation Preparatory School	9-12	490	4
Gonzaga College High School	9-12	957	8
Holy Trinity School	PK-8	343	7
Howard University Early Learning Program	PK-K	44	0
Kingsbury Day School	K-12	223	14
Kuumba Learning Center (MLK Campus)	PK-8	48	15
Little Flower Montessori School	PK-K	20	0
Lowell School	PK-7	300	1
Metropolitan Day School	PK-5	52	25
The Monroe School	6-12	38	5
Muhammad University of Islam	K-10	53	22
Nannie Helen Burroughs School	PK-6	54	33
National Cathedral School	4-12	583	2
National Presbyterian School	PK-6	276	0
Naylor Road School	K-8	110	66
Our Lady of Victory School	PK-8	202	17
Parkmont School	6-12	39	13

**Appendix III: Total School and OSP Enrollment, School Year 2011-2012**

<b>School name</b>	<b>Grades served</b>	<b>Total school enrollment</b>	<b>Total OSP students</b>
Preparatory School of DC	PK-11	90	79
Randall Hyland Private School	PK-K	20	1
Roots Activity Learning Center	1-8	17	14
Sacred Heart School	PK-8	199	83
San Miguel School	6-8	61	21
Sheridan School	K-8	228	1
Sidwell Friends School	PK-12	1108	10
St. Albans School	4-12	578	5
St. Ann's Academy	PK-8	187	59
St. Anselm's Abbey School	6-12	231	6
St. Anthony School	PK-8	217	57
St. Augustine School	PK-8	207	102
St. Francis Xavier Academy	PK-8	220	96
St. John's College High School	9-12	1044	32
St. Peter School	PK-8	227	9
St. Thomas More Academy	PK-8	165	94
Washington International School <sup>b</sup>	PK-12	910	0
Washington Jesuit Academy	6-8	78	9
Washington Middle School for Girls <sup>c</sup>	4-8	101	39

Source: GAO analysis of DC Children and Youth Investment Trust Corporation program data.

<sup>a</sup>Dupont Park Adventist School has two campuses: Alabama Ave (grades PK-5) and Massachusetts Ave (grades 6-10).

<sup>b</sup>Washington International School has two campuses: Primary School Campus (grades PK-5) and Tregaron Campus (grades 6-12).

<sup>c</sup>Washington Middle School for Girls has two campuses: THEARC Campus (grades 6-8) and Washington View Campus (grades 4-5).

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# Appendix IV: Internal Control Frameworks

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Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO),<sup>1</sup> the five components of internal control for businesses and other entities are:

- **Control Environment:** The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors. The control environment has a pervasive influence on the way business activities are structured, objectives established and risks assessed. It also influences control activities, information and communication systems, and monitoring activities. This is true not only of their design, but also the way they work day to day. The control environment is influenced by the entity's history and culture. It influences the control consciousness of its people. Effectively controlled entities strive to have competent people, instill an enterprise-wide attitude of integrity and control consciousness, and

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent, private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors; the U.S. Securities and Exchange Commission and other regulators; and educational institutions. In 1992, COSO issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. 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, including internal control over financial reporting.

set a positive “tone at the top.” They establish appropriate policies and procedures, often including a written code of conduct, which foster shared values and teamwork in pursuit of the entity’s objectives.

- **Risk Assessment:** Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. All entities, regardless of size, structure, nature or industry, encounter risks at all levels within their organizations. Risks affect each entity’s ability to survive; successfully compete within its industry; maintain its financial strength and positive public image; and maintain the overall quality of its products, services and people. There is no practical way to reduce risk to zero. Indeed, the decision to be in business creates risk. Management must determine how much risk is to be prudently accepted, and strive to maintain risk within these levels. Objective setting is a precondition to risk assessment. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks. Objective setting, then, is a key part of the management process. While not an internal control component, it is a prerequisite to and enabler of internal control. This chapter first discusses objectives, followed by the discussion of risks.
- **Control Activities:** Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management directives identified as necessary to address risks are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities including approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities can be divided into three categories, based on the nature of the entity’s objectives to which they relate: operations, financial reporting, or compliance. Although some controls relate solely to one area, there is often overlap. Depending on circumstances, a particular control activity could help satisfy entity objectives in more than one of the three categories. For example, operations controls also can help ensure reliable financial reporting and financial reporting controls can

serve to effect compliance. Although these categories are helpful in discussing internal control, the particular category in which a control happens to be placed is not as important as the role it plays in achieving a particular activity's objectives.

- **Information and Communication:** Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders. Every enterprise must capture pertinent information, financial and non-financial, relating to external as well as internal events and activities. The information must be identified by management as relevant to managing the business. It must be delivered to people who need it in a form and timeframe that enables them to carry out their control and other responsibilities.
- **Monitoring:** Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board. Internal control systems change over time. The way controls are applied may evolve. Once-effective procedures can become less effective, or perhaps are no longer performed. This can be due to the arrival of new personnel, the varying effectiveness of training and supervision, time and resource constraints or additional pressures. Furthermore, circumstances for which the internal control

system originally was designed also may change, causing it to be less able to warn of the risks brought by new conditions. Accordingly, management needs to determine whether the internal control system continues to be relevant and able to address new risks. Monitoring ensures that internal control continues to operate effectively. This process involves assessment by appropriate personnel of the design and operation of controls on a suitably timely basis, and the taking of necessary actions. It applies to all activities within an organization, and sometimes to outside contractors as well. For example, with outsourcing of health claims processing to a third-party administrator, and such processing directly affects benefits' costs, the entity will want to monitor the functioning of the administrator's activities and controls.

GAO Standards for Internal Control<sup>2</sup> for federal agencies also comprise the five standards of internal control:

- **Control Environment:** Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management. A positive control environment is the foundation for all other standards. Several key factors affect the control environment including the integrity and ethical values maintained and demonstrated by management and staff, management's commitment to competence, and philosophy and operating style. In addition, the agency's organizational structure and the manner in which the agency delegates authority and responsibility throughout the organization affect the control environment. Good human capital policies and practices are another critical environmental factor. A final factor affecting the control environment is the agency's relationship with Congress and central oversight agencies such as the Office of Management and Budget. Congress mandates the programs that agencies undertake and monitors their progress and central agencies provide policy and guidance on many different matters. In addition, Inspectors General and internal senior management councils can contribute to a good overall control environment.

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<sup>2</sup> GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#). (Washington, D.C.: November 1999).

- **Risk Assessment:** Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. A precondition to risk assessment is the establishment of clear, consistent agency objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans developed under the Government Performance and Results Act, and forming a basis for determining how risks should be managed. Management needs to comprehensively identify risks using methods such as qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments. Once risks have been identified, they should be analyzed for their possible effect. Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms should be provided to identify and deal with any special risks prompted by such changes.
- **Control Activities:** Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Control activities are policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes. Activities may be classified by specific control objectives, such as ensuring completeness and accuracy of information processing. Examples of control activities include top level reviews of actual performance, reviews by management at the functional or activity level, management of human capital, controls over information processing, physical control over vulnerable assets, establishment and review of performance measures and indicators, segregation of duties, proper execution of transactions and events, accurate and timely recording of transactions and events, access restrictions to and

accountability for resources and records, and appropriate documentation of transactions and internal control.

- **Information and Communications:** Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all of its objectives. Program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. For example, operating information is required for development of financial reports. This covers a broad range of data from purchases, subsidies, and other transactions to data on fixed assets, inventories, and receivables. Operating information is also needed to determine whether the agency is achieving its compliance requirements under various laws and regulations. Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources. Pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently. Effective communications should occur in a broad sense with information flowing down, across, and up the organization. In addition to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals. Moreover, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.
- **Monitoring:** Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Separate evaluations of control can also be useful by focusing directly on the controls' effectiveness at a specific



time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector General or an external auditor. Deficiencies found during ongoing monitoring or through separate evaluations should be communicated to the individual responsible for the function and also to at least one level of management above that individual. Serious matters should be reported to top management. Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the findings and recommendations do not warrant management action.

# Appendix V: Comments from the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INNOVATION AND IMPROVEMENT

September 20, 2013

Mr. George A. Scott  
Director, Education, Workforce,  
and Income Security Issues  
Government Accountability Office  
Washington, DC 20548

Dear Mr. Scott:

Thank you for the opportunity to comment on the draft report entitled, "District of Columbia Opportunity Scholarship Program (OSP): Actions Needed to Address Weaknesses in Administration and Oversight."

The Department of Education (the Department) is committed to supporting the children of Washington, DC, and their families, through efforts to improve public schools for all students, to support those students currently enrolled in the OSP, and to provide information to families for their decisions about their participation in the OSP. The Department continues to work with its grantee, the DC Children and Youth Investment Trust Corporation (Trust), through a cooperative agreement, to ensure effective implementation of the OSP in accordance with the SOAR Act.

In the two years since the SOAR Act was enacted in 2011, the Trust has worked diligently to provide for the orderly transition of the OSP from the previous authorization of the program to the SOAR Act OSP, in accordance with Section 3012 of the SOAR Act. For example, over the last two years, the Trust conducted significant outreach to OSP families, worked directly with hundreds of families on school placements, performed all necessary steps to conduct two lotteries, and implemented the OSP in an appropriate manner. As you know, the Trust was substituted as the OSP grantee when the Washington Scholarship Fund (WSF) withdrew as the grantee in 2010. In April 2011, Congress passed the SOAR Act, which reauthorized the OSP. Congress then directed the Department to award new scholarships for the 2011-2012 school year. The Trust moved quickly to address the urgent additional SOAR Act requirements and enroll new OSP students before the end of the summer of 2011. Since that time, the Trust has administered the program with limited administrative funds and through periods of significant turnover in leadership and OSP staffing.

We take the issues that the Government Accountability Office (GAO) has raised in the report very seriously, and we will continue to consider them carefully as described below. At the same time, we believe that it is important for GAO to effectively present in the report the circumstances facing the Trust during this transition period; GAO does not appear to fully recognize this important context. As such, before responding to GAO's specific recommendations, we would like to offer some additional general comments about GAO's study of the OSP.

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*The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

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We believe the draft report does not fully reflect the Trust's efforts to provide complete and timely information about participating schools to OSP families. The report states that the participating schools directory, which is published by the Trust, lacks key information about tuition, fees, and accreditation. The Trust made a deliberate decision to maintain a reasonably sized, user-friendly directory with straightforward information on average tuition and fees. In addition, the Trust provides individualized assistance to families on an ongoing basis to help ensure that they have the specific information they need about participating OSP schools. For example, the Trust provides individualized assistance to families through its telephone hotline, electronically, and in person. The Trust also holds school placement fairs where school representatives explain each school's respective fee and tuition scales to families. We believe these approaches are appropriate ways to provide information to OSP families.

Even before receiving this draft report, the Department recognized the need to modify its oversight of, and to have a closer, more direct relationship with, the Trust. For this reason, on June 5, 2013, the Department and the Trust executed a cooperative agreement. It sets forth the Trust's and the Department's respective responsibilities for implementing the OSP, as required by the SOAR Act and the Education Department General Administrative Regulations (EDGAR), incorporates by reference existing documents governing the ongoing relationship between the Department and the Trust, and formalizes a close working relationship between the Department and the Trust. We believe this cooperative agreement is an important step in ensuring the efficient and effective continued implementation of the OSP.

At the same time, it is the Trust, and not the Department, that implements such activities as database functionality, internal documentation of policies and procedures, monthly reconciliations of its internal bank accounts, and assessment of the risk and financial sustainability of participating schools. The Department's role is to offer technical assistance and advice to help the grantee improve the types of processes described above. The Department conducts ongoing desk monitoring and periodic site visits to monitor the Trust's progress and provides technical assistance to the Trust to address issues as necessary. We recognize that the Trust has had some challenges during the transition period. We believe that the Trust will address these matters, and the Department will work with the Trust and provide technical assistance as the Trust works to improve these processes. For this reason, the Department's Risk Management Service will be working with the program office and the Trust on improving such processes as the Trust's database functionality, internal documentation of policies and procedures, monthly reconciliations of its internal bank accounts, and assessment of the risk and financial sustainability of participating schools.

Readers of the report should be sensitive to the context when the GAO conducted its study. The Trust's leadership and staff transition impacted several aspects of the Trust's implementation of the OSP in school year 2012-13. For instance, the Trust's site visits for school year 2012-13 occurred in February 2013, rather than the late Fall 2012, because the OSP director did not begin her position until December 2012. The timing of the site visits affected the timing of the publication of the school directory for that year. This timing is not the routine practice for the Trust, but rather reflects the impact of a specific instance of significant staff turnover on this relatively small organization.

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For this upcoming implementation cycle, the Trust plans to publish its school directory no later than December 2013. This will give applicants for the upcoming school year ample time to use the directory to aid with their OSP school choices. Further, the Trust is currently updating both its letter of agreement with participating schools and its school site visit form to better fulfill the financial oversight responsibilities recommended by this GAO study. The Department is currently reviewing the Trust's proposed revisions to the school letter of agreement, which will govern the financial accountability responsibilities for participating OSP schools. Once the school visit form is available for Department review, we will consider proposing any needed revisions to address financial compliance issues raised in this GAO study. We continue to stand ready to give the Trust technical assistance to ensure that it is aware of its financial oversight responsibilities for participating OSP schools and to work with the Trust to build its capacity in an appropriate and feasible manner.

**Comments on Specific Recommendations**

*Revise the June 2013 cooperative agreement between Education and the Trust to include Education's expectations for the Trust regarding collaboration with District agencies to ensure they conduct required building, zoning, health, and safety inspections.*

In developing the cooperative agreement, the Department and the Trust identified activities that needed to be included to govern the award, prospectively.<sup>1</sup> In our work with this program, we will continually review the implementation of the cooperative agreement, and determine if it should be supplemented. Department staff will continue to work with the Trust to ensure that the Trust is aware of its responsibilities for collaboration with District agencies.

*Work with the Mayor of the District of Columbia (District) to revise the memorandum of understanding (MOU) that governs OSP implementation to include processes that will help ensure that the results of the OSP school inspections, when they are conducted, are communicated to the Trust.*

To date, the Trust has implemented the OSP in accordance with the SOAR Act, EDGAR, and the cooperative agreement. The inspections in the MOU describe the process by which the District is notified of the need for inspections. The Trust is now fully informed of its responsibility to notify the District, and is aware that the next step is to define the process by which it will communicate with the District. Department staff will continue to work with the Trust and the District to ensure that the Trust and the District are aware of their responsibilities for

<sup>1</sup> The cooperative agreement between the Department and the Trust incorporates by reference previously existing documents governing the ongoing relationship between the Department and the Trust, including WSF's May 26, 2009, approved application and the agreement transferring the administration of the OSP to the Trust. Section B.4. of the cooperative agreement indicates that the Trust will notify the District of Columbia when new schools are added to the program. The responsibilities of the District of Columbia that are referenced in the Memorandum of Understanding (MOU), and that are triggered "upon notification by the grantee," had been met for schools already participating in the program. Thus, these issues were not reiterated specifically in the cooperative agreement. We also note that before a school is added to the OSP program, it is required to demonstrate to the Trust that it has already met these building, zoning, health, and safety requirements.



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collaboration, and we will continually review the implementation of the cooperative agreement, and determine if it should be supplemented.

The Department is committed to providing technical assistance to the Trust while it explores ways to improve the process of inspection notification to the District. Initially, we plan to suggest that at the beginning of every school year, the Trust send the District a list of every participating OSP school for the District to use when scheduling its inspections.

*Explore ways to improve its monitoring and oversight of the Trust. For example, Education could require the Trust to develop and implement a plan for how it will address its timeliness in mandatory financial reporting.*

Currently, the Department conducts regular, ongoing desk monitoring of the Trust. The ongoing activities of this grant's program officer are focused on regular communication with the Trust. These activities include e-mail and telephone communication with the project director to answer questions, resolve issues, ensure compliance, and share information. Additionally, the Department conducts scheduled monthly performance update calls to discuss progress with outreach to prospective OSP families, eligibility screening, and effective implementation of the cooperative agreement.

Also, the Department provides extensive technical assistance to the Trust when we uncover problems or issues, and we take timely corrective action. As a control to check the accuracy of implementation of the OSP, the Department has developed specific site visit questions and related procedures, and the Department plans to implement the site visit procedures on a semi-annual basis. Further, the Department's OSP program officer will participate in periodic school site visits with the Trust. As stated in the cooperative agreement, the Trust is required to conduct annual school site visits and use the Trust's approved school site visit form. The Trust's school site visit form is currently under revision to increase financial oversight.

The cooperative agreement incorporates all applicable EDGAR requirements by way of reference; therefore, the Trust must adhere to the financial reporting guidance provided in EDGAR. In response to GAO's specific example, the Trust's 2010 and 2011 audit reports are complete and now available for review. Our understanding is that the 2012 audit report will be complete by the end of September 2013. The Trust has given us no indication that its upcoming audits will be untimely.

*Conduct activities to ensure that the Trust publishes the school directory prior to participating schools' application deadlines with more complete information.*

For the upcoming 2014-15 school year, the Department plans to work with the Trust to update the school directory language in the cooperative agreement to include a mutually agreed upon time for the directory to be published. This timeframe should occur around the time when applications become available to parents in the late fall of 2013. The Department requires the Trust to publish a school directory to inform parental decision-making regarding the OSP. The language used in the cooperative agreement requires the Trust to create a school profile directory to be available for parent information and ensure that this directory includes accurate information

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that is provided to parents before a school is chosen. The information available for parents must include at a minimum summary achievement data for the students enrolled at the school, teacher qualifications and tuition levels. All participating schools should make this information available on an annual basis to parents of enrolled OSP students.

The Trust has provided a school directory available for parent usage. In addition, the Trust provides ongoing, extensive technical assistance to parents by communicating with schools on parents' behalf and ensuring that parents are able to contact schools with any specific admissions questions. The delay in issuing the 2012-13 school year directory was due to staff turnover and the delayed site visits that occurred at the Trust that year. Going forward, the Department will work with the Trust to provide a directory prior to participating schools' application deadline. This upcoming school year's directory is expected to be available by December 2013 and future years' directories are expected to be available by November of the proceeding school year.

In terms of including more complete information in the directory, the Department will discuss ways for the Trust to explain to parents that the school has varying tuition and fees and that parents should contact either the Trust or the school for further information. Decisions regarding the inclusion of additional data or information in the directory must be balanced with the impact on its size and usability for parents. The Department and the Trust believe that parents benefit more from clear and succinct guidance in key areas than from an encyclopedic description of school policies guiding tuition and fees. More detailed information is available to parents through school placement fairs as well as individualized support from the Trust and its staff, as described above.

*Conduct activities to ensure the Trust more closely aligns its scholarship timelines with schools' admissions and enrollment schedules. Education could find ways to assist the Trust in executing the OSP lottery earlier in the school year, for example, by allowing the Trust to use the prior year's income information to make preliminary determinations regarding eligibility.*

The lottery date is determined by the Trust in consultation with the Department and is derived by using other milestones' timelines to determine its date. Moving up the lottery date significantly could mean that the Trust either conducts less outreach to potential applicants, provides less time and assistance to families in completing applications, or does less due diligence on eligibility determinations. In addition, many potentially eligible families do not begin thinking about their children's school options, and therefore about applying to the OSP, until after January and into the spring. Holding the lottery earlier than late spring would likely reduce the number of eligible applicants.

For school year 2013-14, the Trust informed the Department through its implementation timeline that May 24, 2013, would be the earliest that it could schedule the lottery. The lottery date was planned in early fall of 2012 when the Trust submitted its implementation timeline to the Department. Prior to the lottery, the Trust must first conduct extensive outreach, screen all applications for eligibility, and conduct multiple rounds of baseline testing before it submits the applicant file to the Institute of Education Sciences' contractor (Westat).

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The contractor then needs up to two weeks to check the data and the lottery programming. The Department is committed to working with the Trust to explore ways to expedite the steps leading up to the lottery, but cannot ensure that the Trust will more closely align its scholarship timelines to schools' admissions timelines. Further, the Department is committed to ensuring that the lottery pool of eligible applicants is sufficient so that the evaluation can proceed with the necessary sample size; our priority, therefore, is to maximize the time for outreach to new families.

In response to GAO's example, please note that, as explained previously, when the Trust was substituted as the OSP grantee it continued to implement WSF's approved 2009 OSP grant application. The 2009 application--which is incorporated by reference into the cooperative agreement--proposed to use the most recent completed tax year to determine income eligibility rather than earlier tax years (see, for example, forms from the application seeking 2008 tax year data for the 2009-10 scholarship period beginning on page 137). If the Trust wants the Department to consider a change to this approach and use a different year's income for the purpose of making preliminary determinations regarding students' eligibility, it would have to submit its proposal to the Department with an explanation, and we would evaluate the effect of such a change on the project and the requirements of the program. Further, the Trust would have to include its control mechanisms to ensure that families whose income exceeded the threshold in the current year would be notified of their income ineligibility prior to being awarded an OSP scholarship.

*Conduct activities to ensure that the Trust improves its OSP database by creating and maintaining documentation for the use of the database, adding automated checks to the system, creating flags and/or variables for the key priority categories called for in the SOAR Act, and streamlining the data entry process for new applications in order to ensure there is sufficiently reliable data regarding the operation of the program.*

The Trust has previously shared that it is aware of some of its OSP database challenges. The Trust is currently working to improve many of the database features that should improve the database functionality. The Department will ask for periodic status updates on the database through an addition to the cooperative agreement. Further, beginning in 2012 when its contract was awarded, Westat has conducted some checks on the OSP database for applicants eligible for the lottery. Westat checks for duplicate entries, anomalies in key variables, missing data, data out of reasonable range, and students entered erroneously who have already received payments. Westat will continue this monitoring throughout its contract. Finally, in regard to GAO's assessment that backlogs in the Trust's data entry of the application forms led to delays in Westat's first evaluation report, the Department reiterates that the problem was not the timeliness of the data entry but a misunderstanding about whether data items that are used only for the evaluation would be entered by the Trust. This issue has been resolved.

*Require the Trust to Update its Policies and Procedures in Several Key Respects:*

*Identifying the steps the Trust will take to verify reported information in participating schools' compliance with reporting and program requirements specified in the SOAR Act.*



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The cooperative agreement currently contains language stating the following: “Require participating schools to sign the letter of agreement... Conduct annual school site visits and use the Trust’s approved School Site Visit Form to conduct the review. The site visit reports should contain information on the overall financial stability of the schools.”

In addition, the Trust’s current letter of agreement between OSP schools and the Trust includes language that requires schools to provide sufficient documentation to verify that the school is: financially responsible and will use scholarship funds effectively; has financial systems, controls, policies, and procedures to ensure that scholarship funds are used for the education of OSP participants; has adequate financial resources reflecting the financial sustainability of the school; and ensures that each teacher who teaches core academic subjects to OSP participants has a baccalaureate degree or equivalent degree. Further, the Department is currently reviewing the Trust’s proposed revisions to the letter of agreement that include language requiring all OSP schools to: provide immediate notification of any bankruptcy, civil or criminal actions or investigations filed against the school; and provide immediate notification of any levies or liens filed against the school’s property. Further, the Trust is proposing to require all schools that are members of an umbrella organization to provide audits and all fiscal year-end financial statements for the individual OSP school.

In previous conversations, the Trust has shared that it will review fiscal programmatic documentation relative to the utilization of OSP funds while on school site visits. Previously, the Trust was allowing schools to self-report this information. The updated school site visit reports will be revised to address the financial documentation review process. Given the Trust’s proposed updated policies and procedures that are currently being reviewed by the Department prior to implementation, it is not apparent to us that the Department should require the Trust to make further updates at this time. Once the updated school site visit form is available for review, the Department will further address these concerns.

*Identifying the specific risks that should be included in the evaluation performed when assessing participating schools’ financial sustainability information, including a record of the analyses performed and ensure that the conclusions reached with regard to schools financial sustainability are documented.*

The Trust’s letter of agreement between OSP schools and the Trust requires that schools provide sufficient documentation to permit the Trust to make an informed judgment as to whether there is proof of adequate financial resources reflecting the financial sustainability of the school and the school’s ability to continue operations through the end of the school year. The Department will review the Trust’s approach to risk analysis once it receives the updated school site visit form.

As discussed above, the Trust is in the process of updating its school site visit form, and the Department plans to use this as one vehicle for working with the Trust to strengthen its risk assessment responsibilities with regard to OSP schools. The Department will work with the Trust to update its school site visit report and help ensure that the Trust is carrying out its responsibilities appropriately.



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*Specifying a process for addressing schools that are not compliant with program requirements.*

The most recent proposed revisions to the letter of agreement between OSP schools and the Trust reserves the Trust's right to limit and/or suspend a school's participation in the OSP. Any OSP schools that require a further compliance discussion will be handled on a case-by-case basis.

*Providing more detailed procedures in key areas including calculating yearly administrative expenses, and performing monthly and year end reconciliations of the OSP bank account, and ensure the document reflects current practices and that key decisions associated with the administrative expenses are documented.*

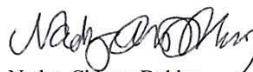
The cooperative agreement currently requires the Trust to: "Use funds authorized under Section 3007 of the SOAR Act for expenses that are reasonable and necessary to effectively implement the Program, consistent with EDGAR. In particular, the Trust will:

- Ensure that the administrative expenses do not exceed the 3% statutory limitation for general administrative expenses in accordance with Section 3007(b) of the SOAR Act;
- Ensure that the expenses related to assisting parents to participate in the Program do not exceed the 2% statutory limitation in accordance with Section 3007(c) of the SOAR Act;
- Seek prior approval from ED to use up to 1% of the funds for student academic assistance under Section 3007(d) of the SOAR Act; and
- Seek prior approval before transferring money between budget categories.

Further, the Department required that all administrative expenses associated with the 2011 orderly transition were documented, and required the Trust to submit receipts for all expenses incurred. Overall, the Department requires that administrative expenses are documented through the Annual Reporting Form 524(B) and requires that this reflect a grantee's current practices. Given the procedures that the Department currently employs and the additional administrative expense language in the cooperative agreement, the Department will hold discussions with the Trust about the options for implementing processes to further ensure that the Trust calculates yearly administrative expenses correctly and documents this for its own records. If necessary, the Department will update the cooperative agreement with more detailed procedures.

Thank you for the opportunity to provide a written response to the draft report. We strongly encourage GAO to consider the information provided in this response when preparing the final report. As indicated, we will use the information in this report to continue to improve the Department's oversight to help ensure the success of the program, along with helping to ensure the oversight of the Trust and its coordination with the D.C. Deputy Mayor's Office.

Sincerely,



Nadya Chinoy Dabby  
Acting Assistant Deputy Secretary  
for Innovation and Improvement

# Appendix VI: Comments from the District of Columbia Children and Youth Investment Trust Corporation

DC Children and Youth  
Investment Trust Corporation



September 20, 2013

Mr. George A. Scott  
Director, Education, Workforce, and Income Security Issues  
United States Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Dear Mr. Scott:

Thank you for permitting the DC Children and Youth Investment Trust Corporation (the Trust) the opportunity to comment on the Government Accountability Office (the GAO) draft report entitled "District of Columbia Opportunity Scholarship Program: Actions Needed to Address Weaknesses in Administration and Oversight." The Trust values evaluation as an important tool to further enhance implementation of programs, and looks forward to improving systems in key areas outlined in the GAO report.

We feel it is important to note that the GAO's audit covers a period of time prior to program administration by the current Trust leadership which assumed responsibility for OSP in December 2012, after the previous application cycle already began. Since the conclusion of the previous application cycle in May 2013, the current leadership already began to assess and enhance OSP administrative policies and procedures, which has been done with all other programs within the organization.

We offer the following information in response to the report findings:

## **I. The Trust's Response to the GAO Report's notation of Weaknesses in Administration and Oversight**

### *1. The Trust Provides Information to Families through Many Channels, but Its Participating Schools Directory Provides Incomplete and Untimely Information*

We disagree. Although this finding addresses the timeliness of updating the OSP Participating School Directory, this condition does not exist under the current management and administration of the OSP. Furthermore, the Trust provides information to families through a comprehensive array of tools, events and individualized ongoing assistance via direct phone outreach to parents/guardians. Specifically, OSP provides the *Participating*

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*Schools Directory*, the list of participating schools, the *OSP Using Your Opportunity Scholarship Family Guide*, the Admissions Information Guide, the annual fall family orientation, and the annual fall event for families with students transitioning to middle and high school to assist families in the school search process (print resources are provided in English and in Spanish and are mailed to each family, also, the Directory and the list of participating schools is made available via the OSP website).

The Participating Schools Directory provides basic school information to families. The school profiles section gives an overview of each school, including tuition ranges and program and facility offerings. In the opening message, families are strongly encouraged to seek additional information before applying to school, by visiting school websites, attending open houses and tours, and contacting admissions staff directly, and are encouraged to check with the schools for the most current information. With annual directory updates, The Trust will present this message more frequently throughout the document to ensure families use it as one--not the only, tool to assist them, and will implement a more timely release of the Participating Schools Directory by publishing the directory by December of the current school year. This update will include more accurate notation of school-accrediting bodies and a general notation about discounts and/or additional fees to assist families as they inquire of, and work with, schools to determine total school costs. Detailed information on using the scholarship, determining fees, and which fees are covered by the scholarship or may be the parent/guardian's responsibility is provided at the annual family orientation to ensure families are made fully aware of the importance of working with their student(s)'s school to determine total fees.

*2. The Timeframes for Awarding Scholarships Do Not Align With Many Schools' Admissions and Enrollment Schedules*

We Agree. Previous application and eligibility cycles hindered families' ability to select a participating school before most schools' available slots were filled and financial aid dollars were expended. The Trust has worked diligently to adjust the timing of the cycle, namely moving from a July lottery date in 2012, to a May lottery date in 2013. Families are encouraged, throughout the application/renewal intake cycle, to look for a participating school early in the process to allow for school-specific application and admissions decisions timelines. Additionally, OSP communicates directly with participating schools to gather data on specific grade openings in order to convey that information to families.

Additionally, while a spring lottery date does not meet the admissions timelines of every participating school, it does meet the timelines of many. Please see detail here indicating that 25 schools have a deadline in or after May, enabling a new awardee family to apply to those schools prior to admissions deadlines.

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<u>Overview of Participating Schools' Admissions Deadlines*</u>	<u>for SY 2013-14</u>
December deadline	5
January/February deadline	16
March deadline	-
April deadline	2
May/June/July/August/September deadline	4
Rolling admissions	21

\* data excludes schools that serve preschool through Kindergarten only

Please also note that renewing families were notified in March 2013 of their scholarship renewal award, enabling them to re-enroll at their current school, or enroll at a different participating school, starting in March. For schools with December, January or February deadlines, OSP has encouraged schools to consider OSP students, resulting in several OSP students being enrolled, however, the high cost of tuition in select schools (well above the scholarship award cap), is the primary variable in family and school decisions, not timing, as indicated by the report findings.

*3. The Trust Has Not Developed Effective Policies and Procedures for Implementing and Overseeing the Program*

We Disagree. The Trust's current management has engaged in an exhaustive and comprehensive review of the policies and procedures that govern every aspect of the OSP program in its continual efforts to provide increased efficiency, stronger administrative oversight, continual risk assessment and increased internal control monitoring to ensure greater accountability and program participation.

To that end, the Trust's OSP Policies and Procedures Manual clearly and accurately reflect the policies and procedures governing the program including but not limited to program eligibility, school participation, and scholarship payments. In addition, the Letter of Agreement between schools and the Trust further underscores and outlines the requisite oversight elements. Furthermore, the Trust's Finance & Operations Policies and Procedures Manual buttresses the program's efforts to ensure fiscal integrity and accountability as well as the effective monitoring of each participating school's sustainability on an annual basis.

Regarding School Oversight and Program Implementation specifically, the Trust will verify school documentation in addition to the schools' self-attestation. In the 2013-14 school year, the Trust will request OSSE's assistance in verifying private school accreditation. The



Trust also will conduct sample audits of required documents during each school's site visit. The Trust is currently enhancing the site visit tool.

Amendments to the Trust Policies and Procedures regarding Allocation of Costs and Reconciliation of Monthly OSP Accounts were codified in August 2013, however, internal policy, practice and adherence to set procedures were in place prior to that date.

*4. The Trust's Database is Not Efficiently Structured*

The database is proficient in the areas of student eligibility, student invoicing, school oversight documentation tracking and notation of communications with individual families and with schools. Elements of historical data reporting require OSP staff to utilize supplemental spreadsheets for complete reporting and automated checks do not currently exist, however, the database enables different levels of permissions access which limit errors in data manipulation access and capability, and enables identification of key priorities of the program which does not impede data collection or identification of student sub-groups for inclusion in the scholarship lottery. The Trust will take GAO comments under advisement regarding the structure of the database to consider key changes and improvements of the current database to better serve OSP program needs.

*5. The Trust Has Not Filed Its Mandatory Financial Reports On Time*

We Agree. The Trust acknowledges that mandated annual A-133 for fiscal years ending 2010, 2011 and 2012 respectively were not completed within the regulatory 90-day period following the close out of the fiscal year. The Trust further acknowledges that the delay in completing its annual audits is not an indication of a lack of internal controls, but reflects significant changes in program management and organizational leadership in a relatively short timeframe.

The Trust's current management has engaged in aggressive efforts to complete the requisite audits and has in fact completed and provided to the Department of Education the A-133 audits for fiscal years ending 2010 and 2011. Further, the Trust anticipates providing the Department of Education with the final audit for fiscal year ending 2012 on or before September 30, 2013.

The Trust's management has implemented policies and procedures to ensure that the requisite audits are completed and provided to the Department of Education within the mandated timeframe.

**II. The Trust's Response to the GAO's Recommendations for Executive Action**

The Trust looks forward to working with the Department of Education to improve the program in the following areas:

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1. Publish the school directory with more complete information prior to participating schools' application deadlines.
2. More closely align its scholarship timelines with schools' admissions and enrollment schedules.
3. Improve the OSP database by creating and maintaining documentation, adding automated checks, creating flags and/or variables for priority categories, and streamlining the data entry process.
4. Identify steps needed to verify reported information on participating schools' compliance with reporting and program requirements.
5. Identify the specific risks to be included when assessing participating schools' financial sustainability information.
6. Specify a process for addressing schools that are noncompliant with program requirements.
7. Provide more detailed procedures to include calculating yearly administrative expenses, performing monthly and year end reconciliations of the OSP bank account, and ensure procedures reflect current practice and associated key decisions are documented.

Again, the Trust appreciates the opportunity to respond to the GAO report, and we welcome questions and comments regarding our response. Thank you.

Sincerely,



Ed Davies  
Executive Director, DC Children and Youth Investment Trust Corporation

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# Appendix VII: Contact and Staff Acknowledgments

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## GAO Contact

George A. Scott, Director, (202) 512-7215 or [scottg@gao.gov](mailto:scottg@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Gretta L. Goodwin, Assistant Director; Jamila Jones Kennedy; Grace Cho; and Michelle Loutoo Wilson made significant contributions to this report. In addition, key support was provided by Carl Barden, Hiwotte Amare, Kimberly McGatlin, Carla Craddock, David Chrisinger, Maria C. Belaval, Mimi Nguyen, Melinda Cordero, John Lopez, Helina Wong, Ramon Rodriguez, Alexander Galuten, Jean McSween, James Rebbe, Edward Bodine, Aron Szapiro, and Kristy Kennedy.

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