

Executive Summary

In 2015, the U.S. Department of Education took an unprecedented step--it told the state of Ohio to put on hold the \$71 million that it gave the state for the purpose of opening more charter schools. What is even more remarkable is that the cut-off of funds was championed by Ohio Senator Sherrod Brown, who expressed concern about the charter fraud and abuse that was happening in his state.

Brown's mistrust was well founded. Shortly after the announcement, Innovation Ohio and the Ohio Education Association issued a joint report showing that more than one in three schools that had received federal grants from the U.S. Department of Education's Charter Schools Program (CSP) had never opened, or opened and soon closed. The report also noted that of the remaining grant-funded charters, 63 percent, were among the lowest performing schools in the state.

Was the Ohio scandal a unique event, or was it typical? That is the question this investigative report sought to answer, and after two months of analysis, the answer is clear. The Ohio scandal was far from unique. We found that it is likely that as many as one third of *all* charter schools receiving CSP grants never opened, or opened and shut down. In fact, the failure rates for grant-awarded charter schools in California has reached nearly four in ten.

The federal outlays we examined are not modest expenditures amounting to little more than rounding errors. In its 2015 analysis, CSP stated that, since its inception in 1994, the program had provided \$3.3 billion to fund the startup, replication, and expansion of charter schools, creating 40 percent of operational public charter schools in the nation. We estimate that program funding has grown to well over \$4 billion. That could bring the total of the potential waste to around \$1 billion.


The waste of public dollars on closed charter schools is not the only concern. Of the grant recipients that manage to stay open, we uncovered extensive evidence that raises serious questions as to whether or not these schools are truly "high-quality," meeting the CSP goal of providing equitable access for disadvantaged students.

Through detailed examination of CSP's application process, and by comparing claims made by charter grant applicants to information on state databases and school websites, we found numerous examples of federal tax dollars being misspent due to an inattentive process that routinely accepts applicants' claims without scrutiny. In short, despite the scandal of Ohio and numerous critical reports by their own Office of Inspector General, the U.S. Department of Education has been asleep at the wheel when it comes to the management and supervision of hundreds of millions of taxpayer dollars every year.

Below is a summary of our findings:

1. Hundreds of millions of federal taxpayer dollars have been awarded to charter schools that never opened or opened and then shut down. In some cases, schools have received federal funding even before securing their charter.

Our investigation barely skimmed the surface of the hundreds of charter school grant recipients that never opened or opened but then closed. Among the scores of schools examined, we found a Seattle private school that converted to a charter with grant money only to shortly flip back to a private school, leaving 90 economically dis-



advantaged children scrambling to find a new school mid-year. We found two Delaware charter schools started by the same financial firm that won multiyear grants two years apart from each other. One opened its doors but closed midyear, and the second never opened at all. We found a Hawaii charter that won a CSP award in 2016 that has yet to find a location, while its website continues to say it is accepting new enrollees. Of the schools awarded grants *directly* from the department between 2009 and 2016, nearly one in four either never opened or shut its doors. The CSP's own analysis from 2006-2014 of its direct and state pass-through funded programs found that nearly one out of three awardees were not currently in operation by the end of 2015.

2. The CSP's grant approval process appears to be based on the application alone, with no attempt to verify the information presented. Schools have been approved for grants despite serious concerns noted by reviewers.

The CSP's review process to award grants does not allow the verification of applicants' claims, thus leading to what award-winning, *New York Times* journalist Michael Winerip referred to as an "invitation for fiction writing." This process resulted in numerous examples of awardees that claim they seek to enroll high percentages of minority and disadvantaged students, even while their programs and policies are designed to draw from advantaged populations. Finally, we found instances where achievement and/or demographic data on applications were cherry-picked or massaged, with reviewers instructed to accept what was written as fact.

3. Grants have been awarded to charter schools that establish barriers to enrollment, discouraging or denying access to certain students.


Multiple schools we examined enroll smaller percentages of students with disabilities and students who are English language learners than the surrounding schools. Some appear to be designed to encourage "white flight" from public schools. Thirty-four California charter schools that received CSP grants appear on the ACLU of Southern California's list of charters that discriminate—in some cases illegally—in admissions, and 20 CSP funded Arizona charters appear on a similar list created by the Arizona ACLU. One Pennsylvania charter receiving multiple grants totaling over one million dollars from CSP states on its website that its programs are "limited to students with mild handicaps."

4. Recommendations by the Office of the Inspector General have been largely ignored or not sufficiently addressed.

We reviewed numerous OIG audits that found significant concerns over how CSP money is spent and about the general lack of monitoring the Department carries out to ensure those funds contribute to the intended goals of the grants. Each audit includes specific recommendations to correct this lack of oversight. But not only is there little evidence the department has adopted any of these recommendations; the current Secretary has denied responsibility for oversight, believing that it falls outside the federal government's purview—even though this is a federal grants program.

5. The department does not conduct sufficient oversight of grants to State Entities or State Education Agencies, despite repeated indications that the states are failing to monitor outcomes or offer full transparency on their sub grants.

Although the vast majority of public charter school grants are awarded to state education agencies (SEAs), our investigation reveals that the Department has shown little oversight when SEAs pass that funding along directly to individual charters or charter organizations as subgrants. We found a continuing record of subgrantee schools that never opened or closed quickly, schools that blatantly discriminate in their discipline, curricular, and en-



rollment practices, schools that engage in outright fraud as well schools that engage in related-party transactions that result in private individuals and companies pocketing huge sums of money at taxpayer expense.

6. The CSP's grants to charter management organizations are beset with problems including conflicts of interest and profiteering.

The Office of the Inspector General's 2016 audit of CSP funded CMO's and/or their related schools found that of the 33 schools they reviewed, 22 had one or more of the following: conflicts of interest between the CMO and the charter, related-party transactions and insufficient segregation of duties. We found troubling examples of CMOs that received massive grants that engaged in practices that push-out low-performing students, violate the rights of students with disabilities and cull their student bodies through policies, programs and requests for parental donations.

7. Under the current administration, while Congressional funding for the CSP rises, the quality of the applications and awardees has further declined.

Based on our review of grant awards to SEAs and non-SEAs in 2017 and 2018, we contend the quality of the applications and the receiving grantees are likely getting worse, and the department's willingness to provide oversight has nearly disappeared, which may result in increased fraud, mismanagement and charter failure.

Recommendations

Our investigation finds the U.S. Department of Education has not been a responsible steward of taxpayer dollars in its management of the CSP. Based on what we found, we believe it is likely that one billion dollars of federal "seed money" has been wasted on charters that never opened or shut their doors. We were equally dismayed to find that many of the CSP-funded charter schools that survived did not fulfill their stated mission, especially in regard to enrolling proportionate numbers of disadvantaged youth. As public dollars are pulled from public schools and a more disadvantaged student body is left behind, the students who attend their neighborhood school have fewer resources and greater challenges.

Finally we fear that the department's indifference to accountability and its unwillingness to supervise the hundreds of millions of taxpayer dollars that flow through the program are likely to increase under the current Secretary who presses for choice for the sake of choice, regardless of the cost to the American taxpayers and the disruption it causes to children and families.

Therefore, we recommend that Congress end funding for new charter grants coming from CSP. We also recommend thorough audits of previous grant awards, steps to ensure grant awards still under term are being responsibly carried out and that misspent money is returned.

We cannot afford to continue to pump hundreds of millions of dollars into a program whose stewards are clearly asleep at the wheel.