System Failure: Louisiana’s Broken Charter School Law

Underinvestment in Oversight Leaves Louisiana’s Charter Schools Vulnerable to Financial Fraud and Academic Failures

May 2015

Coalition for Community Schools
ABOUT THE AUTHORS

The Center for Popular Democracy is a nonprofit organization that promotes equity, opportunity, and a dynamic democracy in partnership with innovative base-building organizations, organizing networks and alliances, and progressive unions across the country.

Coalition for Community Schools (CCS) is a New Orleans alliance of parent, youth and community organizations and labor groups fighting for educational justice and equity in access to school resources and opportunities. Together, we represent all students, particularly those from low-income and working-class communities and neighborhoods of color. We are parents, students, teachers, educational support professionals and community members united around a shared vision for supporting and improving our public schools. CCS is a partner of the Alliance to Reclaim Our Schools.

This report is available at www.populardemocracy.org and www.reclaimourschools.org.
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Executive Summary

In the ten years since Hurricane Katrina, post-storm changes to the state’s charter school law have dramatically grown the number of charter schools in the state. Since 2005, charter school enrollment in the state has grown 1,188 percent. Through this growth, the Louisiana Department of Education’s Recovery School District—created to facilitate state takeover of struggling schools—has become the first charter-only school district in the country, with other states lining up to copy its model. Louisiana taxpayers have invested heavily, paying billions of dollars to charters and state takeover schools since the storm, including over $831 million in the 2014/2015 school year alone.

The rapid growth and massive investment in charter schools has been accompanied by a dramatic underinvestment in oversight, leaving Louisiana’s students, parents, teachers and taxpayers at risk of academic failures and financial fraud. The state’s failure to create an effective financial oversight system is obvious, as Louisiana charter schools have experienced millions in known losses from fraud and financial mismanagement so far, which is likely just the tip of the iceberg. According to standard forensic auditing methodologies, the deficiencies in charter oversight throughout Louisiana suggest tens of millions of dollars in undiscovered losses for the 2013-14 school year alone.*

In this report, we identify three fundamental flaws with Louisiana’s financial oversight of charter schools:

- **Oversight depends too heavily on self-reporting by charter schools or the reports of whistleblowers.** Louisiana’s oversight agencies rely almost entirely on audits paid for by the charters themselves and whistleblowers. While important to uncover fraud, neither method systematically detects or effectively prevents fraud.

- **The general auditing techniques used in charter school reports do not uncover fraud on their own.** The audits commissioned by the charter schools use general auditing

* Using the methodology employed by the Association for Certified Fraud Examiners 2014 Report to Nations on Occupational Fraud and Abuse, which assumes 5% of total revenues lost to fraud, to determine the total amount of fraud globally, we estimate that tens of millions could be lost to fraud in the coming year.
techniques designed to expose inaccuracies or inefficiencies. Without audits specifically designed to detect and uncover fraud, however, state and local agencies will rarely detect deliberate fraud without a whistleblower.

- Inadequate staffing prevents the thorough detection and elimination fraud. Louisiana inadequately staffs its charter-school oversight agencies. In order to carry out high-quality audits of any type, auditors need enough time. With too few qualified people on staff—and too little training for existing staff—agencies are unable to uncover clues that might lead to fuller investigations and the discovery of fraud.

As the state has insufficiently resourced financial oversight, it has failed to create a structure that provides struggling schools and their students with a pathway to academic success. While underinvesting in the dissemination and implementation of successful strategies to lift academically struggling schools up, state lawmakers have continued to invest in both charter expansion and conversions of public schools to charters. Coupled with an unwillingness to help failing schools succeed, the rapid growth of charters has failed Louisiana children, families and taxpayers. Since 2005, approximately $700 million in public tax dollars have been spent on charter schools that currently have not achieved a C or better on the state’s grading system.

In this report we identify two fundamental flaws with Louisiana’s academic oversight of charter schools:

- **Underinvestment in systems that help struggling schools succeed.** Lawmakers and regulators have invested in systems that set high standards and then close schools that fail to meet them, rather than helping them improve to meet the standards. This investment in a severe accountability system does not support schools achieve academic success.

- **Heavy reliance on data that is vulnerable to manipulation.** The state’s academic oversight system relies largely on sets of data that can be manipulated by regulators, authorizers, or the charters themselves. Without reliable data, schools, parents and the public have no way to accurately gauge academic quality at their schools.

To address these serious deficiencies in Louisiana’s system, we recommend the following:

### Mandate New Measures Designed to Detect and Prevent Fraud

- Charter school governing boards should be required to institute an internal fraud risk management program, including an annual fraud risk assessment.

- Charter school governing boards should be required to commission an annual audit of internal controls over financial reporting that is integrated with the audit of financial statements charter schools currently commission.

- The Louisiana Legislative Auditor should conduct regular fraud audits, prioritizing charter schools with heightened levels of fraud risk.

- Auditing teams should include members certified in financial forensics trained to detect fraud.

### Increase Financial Transparency & Accountability

- Oversight agencies should create a system to categorize and rank charter audits by level of fraud risk they pose to facilitate public engagement.
The Louisiana Legislative Auditor should create a dedicated charter school fraud hotline for whistleblowers.

Charter school governing boards should post the findings of their annual fraud risk internal assessments on their websites.

Oversight agencies should determine what steps the nonprofit governing boards and executives of charter schools have taken to guard against fraud over the past 10 years and issue a report to the public detailing their findings and recommendations.

Charter school governing boards should provide parents of students enrolled in charter schools free access to all materials related to their fraud risk management program.

The state should impose a moratorium on new charter schools until the state oversight system is adequately reformed.

Redesign the System to Support Struggling Schools

Under the current system, when regulators find that a school is not performing well, they put the school on the “Intervention Ladder”. The Intervention Ladder should be replaced with mandatory hands-on long-term strategic support from the state and stakeholders.

Lawmakers should invest additional resources to ensure that regulators have enough staff with the appropriate expertise to meet the significant turnaround needs in the state.

Redesign the Data Collection System

Lawmakers should mandate that underlying data comparators remain consistent from year-to-year to allow oversight officials and the public to accurately compare school performance. In cases where changes to underlying data are unavoidable, data should be presented using both old and new cut-scores for a period of three years.

The state should invest in ongoing test erasure analysis.

Regulators should implement a process to ensure that the school reported data used to calculate the School Performance Score (SPS) is reliable by conducting regular audits of school-reported data.

The state and authorizers must make funding for regular data audits a priority.

The Louisiana Legislative Audit should include a review of the LDOE’s data auditing in its regular audits of the agency.

Finally, the legislature should mandate that all of the data used to calculate School Performance Scores be made available to the public, in its raw form.

Given the rapid and continuing expansion of state school takeovers and the charter school industry in the state through the investment of public dollars, Louisiana must act now to reform its oversight system. Without reform, Louisianans face many more years of failing schools and millions—if not billions—of dollars more lost to charter school fraud and financial mismanagement.
Introduction

Ten years ago there were fewer than 20 charter schools operating in the state of Louisiana. Today, there are over 130. During those ten years, charter school enrollment has grown by 1,188 percent statewide, with 59,000 Louisiana schoolchildren now attending charter schools. Charter school growth in Louisiana shows no signs of slowing, with 17 new charter schools opening this school year alone. These schools have received substantial federal and state taxpayer support, totaling $71.8 million from federal Charter School Program grants and billions from Louisiana taxpayers. In school year 2014/2015, Louisiana taxpayers will have poured over $831 million into charter schools.

To help ensure that charter schools are held accountable to the students, families and taxpayers they serve, Louisiana charter schools are supposed to meet defined academic goals and maintain satisfactory financial and organizational performance standards. Louisiana’s Administrative Code lays out an oversight structure that requires the Louisiana Department of Education (LDOE) and charter school authors to monitor the financial, organizational, and academic performance of the charter schools they authorize.

To accomplish their oversight function, the LDOE has developed the “Charter School Performance Compact.” The Performance Compact is applied to all state-authorized schools (Type 2, 4 and 5), but the compact’s general structure is also used by most local school board authorizers in the state, including the Orleans Parish, Jefferson Parish and East Baton Rouge Parish school boards (which authorize almost 80% of the Type 1 and 3 charter schools in the state).

Types of Charter Schools in Louisiana

<table>
<thead>
<tr>
<th>Type</th>
<th>Number (2014/15)</th>
<th>New/Converted</th>
<th>Operator</th>
<th>Authorizer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1*</td>
<td>21</td>
<td>New</td>
<td>Non-profit</td>
<td>Local School Board</td>
</tr>
<tr>
<td>2</td>
<td>33</td>
<td>New or Converted</td>
<td>Non-profit</td>
<td>Louisiana Board of Elementary &amp; Secondary Education (BESE)</td>
</tr>
<tr>
<td>3*</td>
<td>13</td>
<td>Converted</td>
<td>Non-profit</td>
<td>Local School Board</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>New or Converted</td>
<td>Local School Board</td>
<td>B.E.S.E. &amp; Local School Board</td>
</tr>
<tr>
<td>5</td>
<td>66</td>
<td>New or Converted &amp; Transferred to Recovery School District</td>
<td>Non-profit or Local School Board</td>
<td>B.E.S.E.</td>
</tr>
</tbody>
</table>

* There are two new types of charter schools in Louisiana—Type 1B and Type 3B. A Type 1B charter is a new or converted school, operated by a non-profit and authorized by a Local Charter Authorizer. A Type 3B charter school is a former Type 5 charter that transfers from the Recovery School District back to the jurisdiction of a local school system. No Type 1B or 3B charters exist yet.

Charter School Statistics

Charter Schools are publicly funded, but privately managed schools. Minnesota passed the first charter school law in 1991. Since then, lawmakers in 42 states and the District of Columbia have written their own charter school laws. By all accounts, the growth of the charter industry has been astronomic. Charter enrollment has doubled three times since 2000; it doubled from 2000 to 2004, and again from 2004 to 2008, and again from 2008 to 2014. Just last year, over 500 new charter schools opened and an estimated 348,000 additional students enrolled in charter schools. Today, there are an estimated 6,700 charter schools enrolling over 2.9 million students.

[http://dashboard.publiccharters.org/dashboard/schools/year/2014](http://dashboard.publiccharters.org/dashboard/schools/year/2014)  

**A small percentage of charter schools are public funded and publicly run by school districts.**
Under the Performance Compact, charters are required to monitor and report on the following (among other) metrics:

- **FINANCIAL:** Quarterly and annual financial performance reporting, including an annual independent financial audit, submitted both to the authorizer and the Louisiana Legislative Auditors’ Office.

- **ACADEMIC:** Data on testing, drop-out rates, graduation data and various other indicators are used to calculate an annual School Performance Score (SPS);† school visits by authorizers, which vary in their intensity depending on the past performance of the charter school. Student performance is the primary measure of charter school quality.

The state has invested heavily in increasing the number of charter schools while failing to create a solid regulatory framework that truly protects students, families and taxpayers from poor academic outcomes and financial fraud. In the financial oversight system, state oversight agencies—local authorizers, the LDOE and the Louisiana Legislative Auditor—act as reviewers of data submitted by charters, rather than direct auditors.‡ But, our research finds that possible fraud this year alone may total tens of millions of dollars. In the academic oversight system, oversight agencies play almost no role in helping charter schools improve academic outcomes. As a consequence, our research finds, that Louisiana has spent approximately $700 million since 2005 on charter schools that currently have not exceeded a D or F rating.§

The underinvestment in regulatory oversight has created a regulatory environment that fails children and taxpayers. Today, the state has no system in place to provide a path to high-quality academics for all struggling charter schools, nor is there an adequate system in place to proactively protect taxpayers from fraud, waste, or mismanagement. The citizens of Louisiana deserve common-sense regulations that protect their children and their tax dollars. The debate in Baton Rouge legislative halls should not be whether or not to provide greater oversight, but how to fund it immediately.

**Holes in the Financial Oversight System**

External monitoring of charter school finances in Louisiana is conducted by the authorizers, the Louisiana Department of Education (LDOE),¹¹ and the Louisiana Legislative Auditor (LLA).¹² The Louisiana Department of Education is responsible for the oversight of 100 out of the 134 total charter schools in the state: all Type 2, 4 and 5 charter schools that are authorized by the Louisiana Board of Elementary and Secondary Education (BESE).¹³

The LDOE Bureau of Internal Audit (BIA), which is the LDOE department responsible for assuring that taxpayer dollars are safeguarded and that the LDOE’s charter oversight policies and procedures are uniformly applied at Type 2, 4 and 5 charters, conducts “desk reviews” of audited financial statements submitted by charters. A “desk review” involves reviewing the charter-commissioned audits, checking to see if problems that were raised in the audits have been fixed, and then reporting on their findings to the appropriate officials and agencies.¹⁴ One of the results of the BIA’s desk reviews is a report that is submitted to the BESE and the LDOE Finance Office, which lists all audit findings that indicate a weakness in a charter school’s internal fraud controls. The Finance Office then follows up to ensure that the issues are resolved.¹⁵

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¹ The types of data used in the SPS varies depending on grade level.

† When there has been an allegation of financial mismanagement or fraud, oversight agencies will perform their own audits and certain oversight agencies will perform their own audits when requested by lawmakers.

§ The authors of this report believe the academic rating system is flawed in various ways. These flaws are discussed in more detail in the “Academic Oversight” sections of this report.
The BIA’s “desk reviews” of charter schools’ audited financial statements are an inadequate financial oversight mechanism because the BIA is not conducting the audits, but rather depending on charter-funded audits of charter-provided data done by a third-party auditor. As we discuss in the next section, while these audits may sometimes indicate weaknesses that can lead to fraud, they are not designed specifically to detect or prevent fraud.

In addition, the LLA has found two major problems with the BIA. First, internal weaknesses in the department’s structure has left it vulnerable to errors.

“During fiscal year 2014, DOE did not have an effective internal audit function, increasing the risk that errors and/or fraud could occur and remain undetected.”—November 2014 audit of the LDOE by the state’s Legislative Auditor (LLA)

Second, the LLA found that the BIA—which is responsible for assuring that education dollars for all the state’s 1,400 schools and 131 school districts are safeguarded—had only three staff: a director, a staff auditor, and a student worker.

Just like the LDOE’s Bureau of Internal Audit, the Louisiana Legislative Auditor reviews audits performed by Certified Public Accountants hired by the charters themselves. The Local Government Services division of the LLA is tasked with reviewing the financial audits provided to the LLA by charters. The division has eight staff responsible for reviewing audits from all local government and quasi-government agencies in the state, for a total of 4,510 audits and other types of reports in 2014 alone.

The LLA does not regularly conduct its own audits, but has the option to conduct financial, investigative or performance audits under several conditions, some of which include:

1. If the audited financial statements reveal a cause for concern, such as egregious control deficiencies or failure to comply with laws and regulations,

2. If there is a whistleblower complaint or other allegation of illegal or irregular acts, or

3. The LLA believes it is in the best interests of the state to conduct its own audit.

In the past fourteen years, the LLA has only conducted nine of these deeper investigations. We reviewed all 71 audits submitted to the LLA from charter organizations for Fiscal Year 2013 (the most recent complete year available). Twelve (17 percent) of these audits found material weaknesses or significant deficiencies in the schools’ internal controls over financial reporting; however, the LLA did not conduct deeper investigations into any of these findings. (A detailed list of these audits is included in Appendix A)

While the LDOE is the authorizer for the vast majority of charter schools in the state, there are 34 charter schools authorized by local school boards. Thirty (88 percent) of these schools are in Orleans Parish, Jefferson Parish and East Baton Rouge Parish. The financial oversight structures in these school districts largely mirror that of the Louisiana Department of Education, as their oversight structures are based on the state’s Charter School Performance Compact. These parishes’ financial oversight structures suffer the same key flaw as the state’s: they rely on charter-financed independent financial audits, which are not designed to detect or prevent fraud.

Audited Financial Statements Do Not Routinely Detect and Prevent Fraud

While charter-submitted annual independent audits occasionally detect weaknesses in internal financial controls, these audits fail to routinely catch such weaknesses because independent auditors are charged with checking the veracity and accuracy of the financial statements that charter
schools provide to them. But they are not designed to assess whether the schools’ internal controls effectively prevent or detect mismanagement, fraud, or other abuse.

Indeed, in our review of the audited financial statements submitted to the Louisiana Legislative Auditors Office for FY 2013, we found that every report contained a similarly worded disclaimer explaining that the auditors do not form an opinion on the efficacy of internal control mechanisms. The disclaimer read as follows (with some slight differences of wording at some schools):

“In planning and performing our audit of the financial statements, we considered [charter schools’] internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the [charter schools’] internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the School’s internal control over financial reporting.”

To deter and uncover fraud, waste and mismanagement, charter schools and oversight agencies must adopt audit methodologies and systems specifically designed to assess the effectiveness of internal control systems.

**Wasted Tax Dollars to a Broken System**

Given the lack of authorizer-led audits, it is predictable that fraud exists in the charter system in Louisiana. Thus far, millions of dollars in charter school fraud and financial mismanagement has been discovered. However, based on the methodology of the Association of Certified Fraud Examiners, we estimate that the actual amount of fraud, waste, abuse, and mismanagement far exceeds the known amount. We estimate Louisiana’s charter schools may have experienced tens of millions in fraud in the 2013/2014 school year alone.

Some of the reports of known fraud and financial mismanagement in Louisiana include:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>2003</td>
<td>In October 2003, the Louisiana Legislative Auditor found that the headmaster of <strong>Right Step Academy</strong> paid himself $230,505 in salary, bonuses and contract payments over a 34-month period. Neither his starting salary of $52,000, nor five raises totaling $35,167 were approved by the board. Mr. Banks also received a $13,000 bonus nine months early. In addition, Mr. Banks was improperly reimbursed $3,517 for questionable expenses. He also used school funds to pay lease payments of $12,000 to a nonprofit corporation of which he was president and director and to pay family members $82,315, including a $6,456 improper payment to his wife after her resignation.</td>
</tr>
<tr>
<td>2010</td>
<td>In 2010, an audit of <strong>D’Arbonne Woods Charter School</strong> revealed that seventy-six percent of employees (16 of 21) received merit pay in excess of that allowed in the personnel policies by $39,185. Auditors also found that included in the Executive Director’s pay for the audit year was a check noted as merit pay for $7,291, but was, in fact, a retroactive salary increase, which is prohibited under state law. In addition, auditors found that the Executive Director used school funds to provide a cellular phone to her son, and the audit included findings of nepotism as the Executive Director’s son was also paid $2,350 for work at the school.</td>
</tr>
<tr>
<td>2010</td>
<td>In February 2010, the former business manager of <strong>Langston Hughes Academy</strong> pled guilty to stealing over $600,000 from the charter school by making more than 150 cash withdrawals from Hughes’ operating account over 15 months. The theft was discovered in the organization’s annual audit. The employee was sentenced to five years in federal prison and ordered to pay over $675,000 in restitution.</td>
</tr>
<tr>
<td>YEAR</td>
<td>DESCRIPTION</td>
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<td>------</td>
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<tr>
<td>2011</td>
<td>In 2011, another audit of D’Arbonne Woods Charter School revealed that employees had again been paid merit pay in excess of the amount allowed in the school’s personnel policies, this time by $51,650 more than the admissible amount. The audit also found that pay advances of $2,900 had been made to an employee, with only $200 paid back by the end of the audit year. The employee no longer worked for the school and the auditor found the likelihood of collection of the monies limited. The amount advanced to the employee was in excess of that approved by the board, in violation of the state constitution. The auditors also found multiple unauthorized large expenses in excess of $500, including a lunch for 48 people with no documentation, a piece of equipment paid for with school funds and delivered to a vendor on a contract with no documentation of competitive bidding or approval by the board, and $2,690 in school funds used to pay for an airline ticket and hotel room for a family member as well as refurbishing of an employee’s personal furniture. The LLA reviewed the audit and asked for a plan of action for six audit findings that had been repeated from the previous year.</td>
</tr>
<tr>
<td>2011</td>
<td>In 2011, an employee of Lusher Charter School’s accounting department embezzled $25,000 by forging five checks she wrote to herself from the school’s bank account. The school discovered the theft and it was reported in its annual financial audit.</td>
</tr>
<tr>
<td>2013</td>
<td>In December 2013, New Orleans police charged a former New Orleans Military and Maritime Academy business manager with stealing $31,000 by writing checks that were invoiced as if they were to office supply stores, but were really to a non-profit he controlled.</td>
</tr>
<tr>
<td>2014</td>
<td>An employee of KIPP New Orleans Inc., the operator of six charter schools in Orleans Parish, misappropriated two checks totaling almost $70,000. The employee altered two checks intended for vendors and the theft was discovered when the vendors complained that they hadn’t been paid. The employee admitted the theft. The theft was made public in an audit.</td>
</tr>
<tr>
<td>2014</td>
<td>The operations manager stole over $9000 from Arise Schools, a New Orleans-based charter group. The theft was made public in a 2014 audit, but was discovered by the school when they noticed money missing from a debit card. The employee twice bought $1,500 in gift cards with the organization’s debit card, in March and June 2014. The rest of the embezzlement was done in small amounts, tacking on his own purchases when he bought supplies for the school. After an investigation in which the employee admitted to the theft, Arise immediately fired him, filed a police report and filed an insurance claim, but did not report the theft to the state auditor, as required by law.</td>
</tr>
<tr>
<td>2014</td>
<td>In May 2014, a special investigation by the Louisiana Legislative Auditor found that from January 2012 through September 2013, ReNew Charter Management Organization provided inaccurate information to the Teachers Retirement System of Louisiana (TRSL) to allow 21 ineligible employees at five schools participate in the teachers’ pension fund. In addition, ReNew failed to enroll 41 eligible employees from Reed Elementary who were required to enroll. Had these 41 eligible employees been properly enrolled in TRSL during this period, ReNew would have been required to remit retirement contributions totaling $376,643 to TRSL. ReNew disputed the audit findings.</td>
</tr>
<tr>
<td>2014</td>
<td>In July 2014, the LLA found that James M. Singleton Charter Middle School (Singleton) failed to enroll certain employees in the Teachers’ Retirement System of Louisiana (TRS). Had these employees been properly enrolled in TRS, Singleton would have been required to make contributions totaling $686,081 to TRS. In addition, some of the employees were removed from payroll reports, which caused inaccurate wage and contribution information to be submitted to TRS. Singleton disputed the audit findings.</td>
</tr>
</tbody>
</table>
Louisiana is not alone. Recent reports of charter school fraud in other states, including states with stronger oversight systems than Louisiana, have uncovered millions in fraud committed by charter officials. In April 2015, the Center for Popular Democracy released a national study of 15 large charter school markets that found over $200 million in losses to taxpayers due to fraud, waste and abuse cases that had already been detected and reported publicly.38

The millions being lost to fraud has not escaped the attention of the federal government. In 2010, the federal Department of Education’s Office of the Inspector General issued a memorandum to the Department of Education’s Office of Innovation and Improvement. The OIG stated that the purpose of the memorandum was to, “alert you of our concern about vulnerabilities in the oversight of charter schools.”39 The report went on to state that the OIG had experienced, “a steady increase in the number of charter school complaints” and that state level agencies were failing “to provide adequate oversight needed to ensure that Federal funds [were] properly used and accounted for.”40

Systems that Detect and Prevent Fraud

As noted above, there are no oversight agencies that regularly audit charter schools in Louisiana. The only audits Louisiana charter schools routinely undergo are the ones they pay for themselves, performed by private, third-party auditors. Although many of the techniques used and areas covered by the charters’ independent auditors overlap with the methodologies that fraud auditors employ during fraud audits, they differ in purpose.

“Traditional audits,” writes an expert on fraud audits, “can uncover fraud, but they don’t seek it out. Instead, they look at records to check if prices charged on contracts were reasonable or if contractors have compliant accounting systems in place.”41 By contrast, a fraud audit is specifically designed to uncover fraud, mismanagement and abuse—and to assess whether schools have adequately strong internal controls in place to prevent such misconduct. A detailed overview of fraud audit methodology can be found in Appendix B.

Internal Control Systems at Charter Schools

Given the millions of dollars in charter school fraud that has likely gone undetected in Louisiana and the large amounts of charter fraud occurring nationwide, the state should require the active participation of these institutions in identifying possible vulnerabilities. Notably, even in the absence of such a legal mandate, charter schools could also voluntarily implement an internal fraud prevention program.

Hallmarks of an effective and comprehensive internal fraud prevention system include:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud risk assessment and reports to the charter’s board of directors, oversight bodies, and school community;
- Implementing reporting procedures that include conflict of interest disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans, with clear benchmarks and reporting.42
These internal measures will help contribute to a culture of vigilance that aligns with the public's interest in ensuring that all resources intended for children's education are appropriately deployed. It will also help identify areas in which each charter school is vulnerable to fraud, targeting areas for particular attention by oversight agencies.

As explained above, part of establishing an effective internal control system is conducting a fraud risk assessment. An effective fraud risk assessment:

- Identifies inherent fraud risks through the explicit consideration of all types of fraud schemes and scenarios; incentives, pressures, and opportunities to commit fraud; and IT fraud risks specific to the organization.
- Assesses the likelihood and significance of inherent fraud risk based on historical information, known fraud schemes, and interviews with staff, including business process owners.
- Creates effective and appropriate responses to possible, existing, or residual fraud risks; and
- Performs a cost-benefit analysis of fraud risks to help the organization decide which controls or specific fraud detection procedures to implement.\(^{43}\)

Some of the fraud that has occurred in Louisiana is likely a symptom of weak internal controls. Since hundreds of millions of public tax dollars flow into the charter system each year, it is important that all charter schools adopt strong internal control systems to assess the risk of fraud within their schools. While it is incumbent upon charter school management and governing boards to establish strong internal controls, charter school oversight agencies are responsible to ensure that their auditing protocols incorporate regular audits of internal controls and targeted fraud audits.

### Key Role Governing Boards Play

The three premiere auditing membership associations—the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners—recently partnered to develop a fraud mitigation guide titled, *Managing the Business Risk of Fraud: A Practical Guide.* The Guide explains the key role governing boards play:

The board of directors should ensure that its own governance practices set the tone for fraud risk management and that management implements policies that encourage ethical behavior, including processes for employees, customers, vendors, and other third parties to report instances where those standards are not met. The board should also monitor the organization’s fraud risk management effectiveness, which should be a regular item on its agenda. To this end, the board should appoint one executive-level member of management to be responsible for coordinating fraud risk management and reporting to the board on the topic.\(^{44}\)

### Fraud Audits

As the reporting currently required by state law fails to include a full audit of the internal controls of the state’s charter schools, the legislature should mandate these audits include a full audit of each school’s internal controls. In addition, the legislature should broaden the parameters of the LLA’s oversight by requiring that they conduct risk-based targeted fraud audits designed specifically to detect asset misappropriation, financial reporting fraud, and corruption. These targeted fraud audits should occur every three years, given the rapid turnover of charter school operators in the state.\(^{45}\)

These fraud audits should begin with a review of the internal fraud-control system itself. While fraud can occur in companies with strong or weak internal control mechanisms, studies show that the companies with the best track record of preventing and detecting fraud are those with the strongest internal control fraud risk management programs.\(^{46}\) For schools with stronger internal control systems, auditors should use a fraud risk assessment to identify areas of particular vulnerability and target areas for the fraud audit. Where internal control systems are weaker, authorizers should conduct broader fraud audits.
The LLA is the appropriate agency to conduct this additional level of fraud oversight as it already has the staff expertise to conduct these audits, while also remaining independent and uninfluenced by the policy considerations that burden the rest of the oversight structure. Obviously, the legislature will need to provide LLA with the funding to adequately staff and train to undertake this additional level of oversight.

In order to facilitate audits across oversight agencies (authorizers, the LDOE, and the LLA), the agencies should work together to identify possible fraud schemes, how they occur, and what symptoms they exhibit, in addition to establishing a coordinated audit calendar.

**Fraud Tree**

The Association of Certified Fraud Examiners (ACFE) has diagrammed a ‘fraud tree’ to explain the distinction between the three major types of fraud. Asset misappropriation fraud is the most common type of fraud committed within corporations, and it is also the type of fraud most commonly found in Illinois’ charter schools. This type of fraud involves the misuse or theft of assets belonging to a company. According to a 2014 global fraud study conducted by the ACFE, 85 percent of all internal fraud schemes involved asset misappropriation.

**Enough Auditors**

Authorizers will not be able to fulfill their new mandate without the staff, time, or other resources they need to adequately monitor charter schools. We have already seen that understaffing at the LDOE’s Bureau of Internal Audit—which is charged with auditing oversight for the majority of the charter schools in the state—has left that department, and its oversight responsibilities, ineffective.

The state must fully fund authorizers, including the Bureau of Internal Audit and the LLA, at levels that allow them to hire and train sufficient staff to carry out the oversight functions necessary to detect waste, fraud and abuse in a timely manner.
Broken Academic Oversight System

Louisiana Academic Oversight Structure

Authorizers are responsible for monitoring of charter school academic performance in Louisiana. Charter schools and public schools are held accountable to the same academic standards. The accountability system built for charter schools is called the Charter School Performance Compact (Compact). The Compact sets academic expectations for charter schools and then holds the schools accountable to those expectations, ultimately closing them if the standards are not met. There are several methods for charter school oversight, including data collection, visits to schools, and an intervention process.

Data Collection

Under the performance compact, a wide-range of data is collected from, and about, the state’s charter schools. This data includes:

- Test scores (depending on grade level: EOC, ACT, LEAP, and other state tests)
- Drop-out data
- Graduation data
- Special Education data (graduation rates, drop-out rates, ELA and math proficiency)
- Suspension and expulsion data
- Other school data

Sources:

2. [LDOE Charter School List: https://docs.google.com/spreadsheets/d/1i-GuSBt7RCB8M00EmDylENM7Q-0NzBzXIOYW_BIVMsc/edit](https://docs.google.com/spreadsheets/d/1i-GuSBt7RCB8M00EmDylENM7Q-0NzBzXIOYW_BIVMsc/edit)
The collected data is used to calculate each school’s School Performance Score (SPS). During both the annual review process and during charter renewal periods, decisions of whether or not to renew or revoke a school’s charter are largely based on this score. The state converts the SPS into a letter grading system—assigning all schools in the state an A through F grade annually—which it releases publicly each year. Decisions regarding whether or not to renew or revoke a charter and the length of a school’s charter are largely based on their SPS score.

### The Length of a School’s Charter

Schools receive a base renewal term based on their letter grade. On top of this base, schools can earn an additional 2 to 4 years for good financial and organizational performance.

<table>
<thead>
<tr>
<th>Academic Base Terms</th>
<th>Financial &amp; Organizational Additional Years</th>
<th>Potential Term Lengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: 6 Years</td>
<td>Up to 4 Additional Years for Financial and Organizational Performance</td>
<td>6–10 Years</td>
</tr>
<tr>
<td>B: 5 Years</td>
<td>Up to 2 Additional Years for Financial and Organizational Performance</td>
<td>5–7 Years</td>
</tr>
<tr>
<td>C: 4 Years</td>
<td>Up to 2 Additional Years for Financial and Organizational Performance</td>
<td>4–6 Years</td>
</tr>
<tr>
<td>D: 3 Years</td>
<td>No Additional Years Added</td>
<td>3 Years</td>
</tr>
<tr>
<td>F: 3 Years</td>
<td>No Additional Years Added</td>
<td>3 Years</td>
</tr>
</tbody>
</table>


### Academic Performance Framework—SPS Score

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100.0–150.0</td>
<td>100.0–150.0</td>
<td>100.0–150.0</td>
<td>K–5: 100% Testing Performance</td>
</tr>
<tr>
<td>B</td>
<td>85.0–99.99</td>
<td>85.0–99.99</td>
<td>84.3–99.9</td>
<td>K–8, 7–8: 95% Testing Performance, 5% Dropout/Credit Accumulation Index</td>
</tr>
<tr>
<td>C</td>
<td>70.0–84.9</td>
<td>69.2–84.9</td>
<td>70.0–84.2</td>
<td>9–12: 25% EOC test, 25% ACT, 25% Cohort Graduation Rate, 25% Grad Index</td>
</tr>
<tr>
<td>D</td>
<td>50.0–69.9</td>
<td>49.9–69.1</td>
<td>46.8–69.9</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>0.0–49.9</td>
<td>0.0–49.8</td>
<td>0.0–46.7</td>
<td></td>
</tr>
</tbody>
</table>

Up to 10 progress SPS points may be awarded for subgroup performance that meets or exceeds expectations

<table>
<thead>
<tr>
<th>K–8: Based on value-added model results</th>
<th>9–12: Based on growth on ACT series</th>
</tr>
</thead>
</table>

**Visits to Schools**

Annually, regulators conduct visits to each charter school in the state. Depending on the past performance of the charter schools, the type of visits regulators conduct differ. Schools that are high performing by state standards are only subject to a pre-scheduled “School Tour.” School tours, which are designed to create minimal disruption at a school, may include:

- Evaluation of policies and procedures
- Informal classroom visits
- Facility review (health and safety)
- School leader conversations

Schools that are lower performing, or are up for renewal or extension of their charter, receive an annual “Site visit.” Site visits are designed to “examine school operations more thoroughly in order to make informed renewal or extension decisions or to highlight areas of growth for schools with staggering performance.” Site visits may include:

- Policies and procedures audit
- Classroom visits
- Facility review
- Special education coordinator review
- School leader interview
- Board/CMO interview

**Intervention For Failing Schools**

When a school is not meeting its performance requirements, it is placed on the Performance Compact’s “Intervention Ladder.” The intervention ladder is an escalating process for schools that are not in good standing. In each step of the intervention ladder, a school is given a prescribed list of steps required to exit the ladder. If the school fails to carry out the steps required, it is escalated to the next rung on the ladder, with the ultimate possibility of charter revocation.

### Intervention Ladder

**LEVEL 1: NOTICE OF CONCERN**

A school enters Level 1 upon receiving a Notice of Concern.

Schools enter Level 1 of the ladder if the LDOE receives a verified complaint that is of significant concern, or if regular oversight generates significant questions or concerns. The Notice of Concern contains specific actions and due dates required to exit the ladder.

**LEVEL 2: NOTICE OF BREACH**

A school enters Level 2 when it fails to correct a notice of concern or fails to meet a critical indicator.

If a Notice of Concern is not remedied in the time allowed, the school is moved to Level 2. The Level 2 Notice of Breach outlines the actions necessary to cure the breach. A school can also enter the ladder at Level 2 by failing to meet a critical indicator on its annual review. Once a Notice of Breach is issued, the LDOE monitors the steps required to cure the breach.

**LEVEL 3: REVOCATION REVIEW**

A school enters Level 3 when it fails to meet its requirements or schedule of a Notice of Breach.

Failure to meet the requirements of a Notice of Breach results in entry into Level 3 of the ladder. The charter revocation review may include additional visits to the school or an in-depth audit to assess financial and organizational health. A school may also be placed at this level for repeated Notices of Breach in the same school year. Findings of the revocation review determine whether a school enters revocation proceedings or is granted a Revised Notice of Breach, and returned to Level 2.

Lagniappe Academy: A Case Study in Oversight Underinvestment

Lagniappe Academy, a Type 5 Recovery School District charter school in New Orleans, received its 2013–14 annual review from the LDOE, just like every other charter in the state. The review was a good one, with a perfect score of 100 on financial performance, 96 (out of 100) on organizational performance and 82.3 (a “C”) on academic performance. The school seemed on the path to a renewed charter for another 4 to 6 years. However, as it turns out, Lagniappe Academy is a disturbing example of how the state’s charter oversight system is dangerously inadequate. Thanks, in large part, to brave teachers who came forward and blew the whistle on Lagniappe—and parents who backed up those teachers’ stories with their own experiences—the LDOE eventually found a long list of violations at Lagniappe Academy, the most disturbing of which involved an alarming failure to serve the basic needs of the school’s special education students.

In 2014, the LDOE’s annual review of the school, conducted under the framework of the Compact, gave the school a perfect score on all Special Education measures. Below is the special education section of Lagniappe’s 2013-14 annual review:

However, the picture painted by whistleblowers and confirmed by the LDOE when forced to do a more extensive review was of a school illegally depriving special education students of the resources and support they needed. The many violations included:

- **Fraudulent and Inaccurate Documentation of Special Education Services:** The school was found to have faked forms and asked staff members to sign forms saying they had provided special education services that they had not provided. Staff members were instructed to move furniture out of a storage room to create a fake special education room in anticipation of a visit from state regulators. The school submitted service logs that falsely suggested that students were provided with special education services on days the school was on break.

- **Failure to Provide an Appropriate Education for Students with Special Needs:** The school lacked proper protocols for identifying students with special needs. The school refused to screen students for special education services even when families had a diagnosis from a doctor. The school directed teachers not to provide students with the special education services mandated. Families of students with special needs were discouraged from attending school and/or returning to school in subsequent years.

The state decided, in light of the findings, to deny Lagniappe’s request for a charter renewal, displacing the 180 students at the school. This decision outraged parents, who questioned why the state had only recognized these problems—which according to the state’s own findings, had been going on for multiple years—when it was time for the charter’s renewal. Parents demanded that the state work with the school to correct the violations, or return the school to the control of the local Orleans Parish School District, rather than force their children to start over at a different school. One parent told The Times-Picayune, “As parents we literally feel like they’re throwing our children away like trash.”

The Recovery School District presented these astonishing allegations and the decision to effectively shutter the school as an example of their oversight process working as it is intended. “The data review and the site visits conducted as part of the renewal process allow violations such as those seen at Lagniappe Academies to surface and be addressed,” the RSD Chief of Staff said. “Our state’s charter accountability policy ensures that these violations are not tolerated and has consequences up to and including loss of a charter.”

However, the opposite is true. The situation at Lagniappe shows exactly the problems with the state’s oversight structure for charter schools. The state relies on a largely self-reporting oversight structure that is easily manipulated by the schools themselves—sometimes for multiple years, as happened at Lagniappe. Upon discovering that a serious problem exists, rather than developing a solution that gives the school’s students and teachers some much-needed stability—such as bringing in a different charter operator, or returning the school to local control—the state’s solution for struggling schools is to close them, effectively punishing students and families for problems outside of their control. Lagniappe Academy is a story of how the state is failing Louisiana students, not one of it protecting them.
Academic Oversight Remedies

Lawmakers and regulators have underinvested in disseminating systems that impart successful, research-backed strategies that can lift academically struggling charter and public schools out of their academic failure status. While underinvesting in the dissemination and implementation of successful strategies, state lawmakers have continued to invest in both charter expansion and takeover and conversion of failing schools to charters through the Recovery School District. Since 2005, 10 years after Louisiana passed its charter school law, approximately $700 million in public tax dollars have been spent on charter schools that currently have not exceeded a D or an F on the state’s grading system.

Due to this underinvestment, tens of thousands of children are still trapped in struggling schools. In essence, Louisiana has replaced one failing system for another.

Under the current system, when regulators find that a school is not performing well, they put the school on the “Intervention Ladder” (described in the above section). The ladder is designed to point out problems and outline clear consequences if the problems are not remedied. Clearly there are times when problems are significant enough that a school must be closed. Yet, the current Intervention Ladder is designed to make school closure a normal and common part of the state’s accountability system. In fact, in the last 6 years, over 1700 New Orleans students have been displaced due to the closure of their charter school.

An effective educational oversight system takes an active and hands-on role in helping struggling schools succeed, rather than simply setting high expectations and closing schools that are struggling. The current oversight system, by allowing schools to fail as a function of oversight, does not adequately support school staff, students, families and whole school communities. In order to establish a more effective system of academic oversight, oversight agencies must 1) redesign its support for struggling schools and 2) redesign its data collection process.

Market-Based Approaches Don’t Work In Education

Research in other states has shown that the type of market-based sink-or-swim approach that Louisiana has adopted for charter school oversight do not work for education.

In fact, Margaret Raymond, Director of the Stanford Center for Research on Education Outcomes (CREDO) and a fellow at the Hoover Institution said in December 2014:

“A lot of these legislation… enabling charter schools were drawn up at time when people had a really really strong confidence in the power of markets. This is one of the big insights for me because I actually am a kind of pro-market kind of girl, but the marketplace doesn’t seem to work in a choice environment for education… I’ve studied competitive markets for much of my career… [Education] is the only industry/sector where the market mechanism just doesn’t work. I think it’s not helpful to expect parents to be the agents of quality assurance throughout the state. There are other supports that are needed… I think the policy environment really needs to focus on creating much more information and transparency about performance… I think we need to have a greater degree of oversight of charter schools, but I also think we need to have more oversight of the overseers…”

Source: https://www.youtube.com/watch?v=H1-mPiSQLfc (around 50 minutes)

“T” Graded Schools

In December 2012, the legislature passed a change to the letter grades awarded to schools by adding a new grade of “T” for “Transitional Schools.”

Under the new definition, “[[If a turnaround operator takes over an entire school that was labeled ‘F’ in the previous school year, including all previous grade levels and all former students of the ‘F’ school, then the school’s grade shall be reported as ‘T’ for the first two years of operation.”

This new grading system takes “F” graded schools out of calculations of the numbers of failing schools in the state, helping to skew grade trends upwards.

Investing in Supports for Struggling Schools

The Intervention Ladder should be replaced with a system that provides mandatory hands-on long-term strategic support from the state and stakeholders. Lawmakers and regulators should design a support system that includes the following elements:

- An analysis of best practice use among leadership, teachers, and staff.
- Inputs from all stakeholders, including school leaders, teachers, parents and other members of the local school community.
- A thorough analysis of the school’s strengths and weaknesses that looks at the school as a whole, and not just through the lens of state-mandated data. This analysis should include the experience level of the teaching staff, parental involvement, class sizes, numbers of counselors and special education staff, the adequacy of funding, the percentage of funds going to classroom instruction, the appropriateness of curriculum, existing extracurricular programs, and other practices that research has shown lead to successful schools. The research backed “Community School” model is a good example of a model that employs the techniques and processes proposed in this section.70
- A strategy to redesign the school that fits that school’s specific needs and is supported by the school community. All options should be considered, including a return of the school to local control. The redesign plan should be a product of a collaborative process with consensus from all stakeholders, including members of the local school board.
- The redesign plan must be adequately funded.
- During the implementation of the redesign, regulatory staff and other experts should be on the ground in the school helping to implement the strategy.

In order to make these recommendations a reality, lawmakers and regulators must invest additional resources to ensure adequate staffing, with the appropriate expertise, to meet the significant turnaround needs that currently exist in the state. The cost of implementing these recommendations will likely be offset by savings realized from fewer school closures.

Sources:
Community School Strategy

Community Schools include the following elements:

- Curriculum that is engaging, culturally relevant and challenging. A robust selection of classes and after-school programs in the arts, languages, ethnic studies, and AP and honors courses. Also offered are services such as ELL, special ed, GED prep and job training.
- An emphasis on high quality teaching, not on high stakes testing. Assessments are used to help teachers meet the needs of students. Educators have a real voice in professional development.
- Wrap-around supports such as health care, eye care and social and emotional services that support academics. They are available before, during and after school and are provided year-round to the full community. Providers are accountable and culturally competent.
- Positive discipline practices such as restorative justice and social and emotional learning supports are stressed so students grow and contribute to the school community and beyond. Suspensions and harsh punishments are eliminated or greatly reduced.
- Transformational parent and community engagement is promoted so the full community actively participates in planning and decision-making. This process recognizes the link between the success of the school and the development of the community as a whole.

How Do Community Schools Work?

Community schools are a way to think about problems and solutions holistically. Instead of treating a range of educational "problems" as separate, school-specific issues, community schools work to find ways to unite them and solve them together, for the benefit of the entire community. Here are some ways that a community schools approach has led to the development of programs to address some common issues facing struggling schools:

PROBLEM: Lack of Health Services

EXAMPLE: Winton Hills Academy in Cincinnati is surrounded by federal housing projects, where many of the residents lack access to good health care, child care, and affordable healthy food. Not only did this place a burden on families who struggled to make ends meet, but children of those families suffered in school from untreated illnesses and hunger, which detracted from their studies. Without assistance, parents and community members couldn’t fix those problems on their own.

COMMUNITY SCHOOL RESPONSE: By becoming a Community Learning Center (CLC), Winton Hills was able to bring resources together and locate them in the school building. The school hosts a food pantry, and actively partners with a nearby community garden growing fresh food. The school is also home to a health and dental clinic, open to all community members. This takes a huge weight off of parents’ minds, and means that kids get access to preventative health services and nourishing food without having to leave the school building.

Community Schools as a Reform Strategy Across a Whole School District

Cincinnati has decided that all of its public schools should become community schools. Parents and community members had protested for decades, saying that their schools were not getting enough resources and their children were being left behind—something had to change. To date, 34 of their 56 schools are community schools, with resource coordinators and community partnerships to provide vital school-based services.

RESULTS

- Over a decade, graduation rates have gone from about 50% to about 80% and in some years, graduation rates for African-American students have exceeded those of white students, indicating that the system has made real progress towards closing the achievement gap.
- Students feel a sense of engagement and excitement in their schools. They have access to a full range of new programs
- Families and community members are empowered to have a say in how their schools are run. Parent engagement is an essential part of making community schools work in Cincinnati.

Each community school is led by a Local School Decision Making Committee (LSDMC) of parents, community members, teachers and staff, all of whom work together to make decisions that will improve their school. This level of engagement allows the school to connect with the neighborhood that surrounds it, and become a welcoming place for everyone.


Burton Elementary has attendance rates of 90%, which they anticipate will hold steady.

PROBLEM: Low Attendance

EXAMPLE: Burton Elementary in Grand Rapids struggled with chronic absenteeism and low attendance rates. They are a neighborhood school serving 85% Latino families, with 97% of the students eligible for free and reduced price lunch. Parents at Burton wanted to see their children succeed in school, but there were a lot of barriers (community safety, lack of access to childcare and transportation) that made it difficult for kids to make it to school every day. COMMUNITY SCHOOL RESPONSE Burton established a School Attendance Team and a Family Outreach Committee to reach out to families of chronically absent students. The idea was to gain a better understanding of what the families were struggling with that resulted in low attendance, and to help them with those problems. Burton now has a full-time social worker who assists parents with finding affordable health care and job placement services, as well as several school bus routes through the neighborhood to help students get to school safely.

All publicly funded schools should be included in the process recommended in this section.

Finally, lawmakers should include more and improved inputs when determining a schools letter grade under the School Performance Score system. While test scores are an important piece of the equation, they are more of a shortcut used to understand a student’s true abilities. The state should investigate other paradigms that utilize more inputs for determining school performance than standardized test scores.
Controlled and Consistent Data

The data currently used to evaluate charter school performance is vulnerable to manipulation and fraud. There has been widespread coverage of scandals tied to this vulnerability. An effective data collection system would establish controls on data and establish consistencies to allow for fair data comparisons from year to year, while also making raw data publicly available for independent scrutiny.

With exam scores so closely tied to whether a charter is renewed or revoked, the stakes of testing at charter schools are high. Currently, the state determines a school’s success based on testing data that can be manipulated in several ways, including by changing cut-scores, or other underlying benchmark data, from year-to-year. An effective oversight system would keep underlying data consistent from year-to-year to allow oversight officials and the public to accurately compare school performance. In cases where changes to underlying data is unavoidable, the data should be presented using both old and new comparators for a period of three years. This practice would allow the public to understand the change and accurately compare data from previous years.

We agree with the legislative auditor’s recommendation that LDOE should implement a process to ensure that the school-reported data used to calculate the SPS is reliable. An effective system would require the state and authorizers to conduct regular data audits of all charter-provided graduation and dropout data to ensure that the data is accurate. Regular data audits will require trained and qualified staff. The state must make funding for this function a priority. As a further safeguard, the Louisiana Legislative Auditor should conduct regular reviews of this data auditing function as part of its regular audits of the agency.

In recent years, researchers and academics, in their efforts to check the state’s numbers and hold the state accountable to high education standards, have repeatedly had to sue the state to force the release of raw data. An effective system of data accountability would make all of the data used to measure academic performance available to the public, in its raw form, in a central online data hub. This open-data approach in the education system allows parents, teachers, taxpayers, and other to bring sunshine and accountability to the system.

Failed Accountability

Changing cut-scores: Data can be manipulated by changing “cut-scores”—or the lowest possible score a student must earn to be considered proficient. In 2014, the LDOE announced that students passing new, and more difficult, Common Core-aligned LEAP (Louisiana Educational Assessment Program) tests had held steady over the previous year. However, a public records request and eventual public records lawsuit, obtained evidence that the LDOE had manipulated the cut-scores of the LEAP tests—making it appear as if students were doing better than they would have had the cut scores remained constant.

Source: http://louisianaeducator.blogspot.com/2015/03/rigging-louisiana-high-stakes-testing.html

Lawsuits Have Forced the Release of Data

Louisiana citizens have, on multiple occasions, been forced to sue the LDOE to gain access to raw performance data. Here are two examples:

- In June 2014, Mike Deshotels, a retired educator and well-respected education blogger in the state, submitted a request under the state’s public information law for the raw cut-scores used to determine student performance on the state’s LEAP exams. Deshotels wanted to test the state’s claim that student performance on the exams had held “steady,” despite the exams being harder than the previous year. LDOE initially provided Deshotels with some of the records he requested, but denied a follow-up request for additional data. Deshotels sued the LDOE under the state’s public records law, and prevailed, winning not just the data he requested, but also his attorney’s fees. [source: http://louisianaeducator.blogspot.com/2015/03/ rigging-louisiana-high-stakes-testing.html; http:// louisianaeducator.blogspot.com/2014/08/leap-scores-manipulated.html]

- In April 2013, the co-founders of Research on Reforms—Barbara Ferguson and Charles Hatfield—submitted a request under the state’s public information law for de-identified student data from the LDOE. The data requested is used by the LDOE and outside researchers to analyze educational outcomes in the state. Research on Reforms had requested the same data in the past, and received it. The LDOE had also provided the same data to other research organizations. However, the LDOE denied Research on Reforms’ request, forcing the organization to sue the department under the state’s public records law. A District Court judge ruled in favor of the LDOE in October 2013. However, in March 2015, an appeals court reversed the lower court ruling and ordered the LDOE to release the data to Research on Reforms. [source: http:// www.researchonreforms.org/html/documents/ AppealCourtReversesDistrictCourt.pdf]
Recommendations

Louisiana taxpayers have invested billions of dollars into the state’s charter schools, fueling rapid growth. Unfortunately, the state has failed to protect this investment with adequate resources for system oversight, leaving Louisiana’s students, parents, teachers and taxpayers vulnerable to academic failures and financial fraud. Louisiana charter schools have experienced millions of dollars in known losses from fraud and financial mismanagement so far, which is likely just the tip of the iceberg. Since 2005, approximately $700 million in public tax dollars have been spent on charters schools that currently have not exceeded a D or an F on the state’s grading system.

The additional revenue necessary to accomplish our recommendations is likely to be more than offset by the prevented loss from fraud and school closures.

Financial Oversight Recommendations

In order to uncover existing fraud schemes and deter future fraud, we recommend that every charter school be required to conduct a mandatory fraud risk assessment and update the assessment annually. Charter schools should be required to use an external fraud risk assessment consultant with expertise in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures to assist charter school governing boards and management in their fraud risk assessments.

We also recommend that charter schools be required to commission an annual audit of internal controls over financial reporting that is integrated with the audit of financial statements that charter schools are already required to do on an annual basis. These integrated audits should require auditors to provide an opinion on the quality of internal controls and financial statements. Charter schools should be required to post the audit of internal controls on their website.

In addition to the above measures, we recommend every charter school institute a fraud risk management program, which will involve:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud risk assessment and reports to the board, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans with clear benchmarks and reporting.

We recommend requiring the Louisiana Legislative Auditor to be adequately resourced to conduct risk-based fraud audits of charter schools once every three years, with audits posted on their website and the websites of the charters themselves within 60 days of completion. The LLA should also design a system that indicates the level of risk uncovered at each school. The LLA should also create a dedicated charter school fraud hotline for whistleblowers. In addition, the LLA should determine what steps charter school nonprofit governing boards and executives have taken to guard against
fraud. The investigation should involve requests for exhaustive information from each charter school detailing their fraud risk assessments and management program over the past 10 years. The investigation should be presented to the public in a report detailing the findings and recommendations based on the investigation.

We recommend that the LLA auditors assigned to charter schools be certified in fraud examinations by the Association of Certified Fraud Examiners and in financial forensics by the American Institute of Certified Public Accountants, or by an equivalent certification body. If current auditors do not have this certification, they should be provided the time and funding to acquire it. If auditors lack certain critical elements in their fraud auditing team, such as a forensic fraud computer expert, we recommend they be required to contract with an independent firm or be required to collaborate with another auditing body to fill that capacity need.

Finally, we recommend that state lawmakers strengthen the state’s whistleblower protections to encourage charter school staff and others with knowledge of fraud to report that fraud and save taxpayers from huge financial losses. Strong whistleblower laws would provide charter school staff and others with the protections needed to report fraud in their schools.

Academic Oversight Recommendations

In order to assure that every school in Louisiana provides schoolchildren with a quality education, we recommend that the legislature replace the current oversight system with a system that provides mandatory hands-on long-term strategic support from the state and stakeholders.

We recommend the creation of an effective support system for struggling schools which includes the following elements:

- An analysis of best practice use among leadership, teachers, and staff.
- Inputs from all stakeholders, including school leaders, teachers, parents and other members of the local school community.
- A thorough analysis of the school’s strengths and weaknesses that looks at the school as a whole, and not just through the lens of state-mandated data. This analysis should include the experience level of the teaching staff, parental involvement, class sizes, numbers of counselors and special education staff, the adequacy of funding, the percentage of funds going to classroom instruction, the appropriateness of curriculum, existing extracurricular programs, and other practices that research has shown lead to successful schools.
- A strategy to redesign the school that fits that school’s specific needs and is supported by the school community. All options should be considered, including a return of the school to local control. The redesign plan should be a product of a collaborative process with consensus from all stakeholders, including members of the local school board.
- The redesign plan must be adequately funded.
- During the implementation of the redesign, regulatory staff and other experts should be on the ground in the school helping to implement the strategy.

We recommend that lawmakers and regulators invest additional resources to ensure adequate staffing, with the appropriate expertise, to meet the significant turnaround needs that currently exist in the state. We recommend that all publicly funded schools should be included in the improved
redesign process and that lawmakers include more and improved inputs when determining a school's letter grade under the School Performance Score system.

In order to avoid the manipulation and fraud and ensure consistent data integrity, we recommend that regulators establish data controls and consistencies to allow for fair data comparisons from year-to-year, while also making raw data publicly available for independent scrutiny.

We recommend that regulators keep underlying data consistent from year-to-year to allow oversight officials and the public to accurately compare school performance. In cases where changes to underlying data is unavoidable, we recommend that data be presented using both old and new comparators for a period of three years, to allow the public to understand the change and accurately compare data from previous years. In addition, we recommend that the state invest in ongoing test erasure analysis to help ensure the integrity of high-stakes test scores.

We recommend that the LDOE follow the LLA's recommendation and conduct regular data audits of all charter-provided graduation and dropout data. The state must make funding for this function a priority, as regular data audits will require trained and qualified staff. We recommend that the Louisiana Legislative Auditor conduct regular reviews of this data auditing function as part of its regular audits of the agency.

We recommend that the LDOE make all of the data used to measure academic performance available to the public, in its raw form, in a central online data hub. By making this unaltered data widely available, the state will give parents, teachers and taxpayers the ability help bring sunshine and accountability to the system.

**Conclusion**

While Louisiana has developed an oversight system that claims to deter and uncover fraud and regulate the academic performance of the state's charter schools, the system is woefully inadequate. Charter schools, authorizers, and oversight bodies have not adopted and implemented systems specifically designed to expose fraud, waste and mismanagement. Further, as the hundreds of millions in public dollars spent on failing schools indicates, there is a chronic underinvestment in effective oversight designed to turn struggling schools into strong schools.

Until the recommendations found within this report are implemented, the state cannot bear the risk of adding new charter schools to an already inadequate oversight system. If the State of Louisiana believes, taking the risk of undetected fraud and wasted dollars on failing schools detailed in this report into account, that continuing to authorize new charter schools is likely to lead to a worthwhile, quality-enhancing investment of limited taxpayer education dollars, we recommend lifting the moratorium 12 months after all charter schools have undergone a fraud risk assessment and established fraud risk management programs that conform to the recommendations found within this report.
### Appendix A: 2013 Charter School Audits With Internal Control Deficiencies or Weaknesses

<table>
<thead>
<tr>
<th>Charter School or Operator</th>
<th>Type of Internal Control Findings</th>
<th>Specific Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KIPP New Orleans Inc.</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Two checks, totaling $69,840 were misappropriated by an employee. The theft was discovered by the school. (More information on this theft in later sections)</td>
</tr>
<tr>
<td><strong>Thrive Baton Rouge</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Several receipts and/or supporting documentation for charges made to credit cards were not maintained.</td>
</tr>
<tr>
<td><strong>Lagniappe Academies of New Orleans</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Journal entries not always being recorded in the general ledger in a timely and accurate way. Journal entries not always being reviewed by management. Bank reconciliations for a new account were not being prepared or reviewed timely.</td>
</tr>
<tr>
<td><strong>Sophie B. Wright Charter School</strong></td>
<td>Material weaknesses &amp; significant deficiencies in internal control over financial reporting</td>
<td>Internal controls over procurement and purchasing were not followed. Several purchases were made without proper requisitions or purchase orders. Credit cards are used for many purchases, and there are not adequate controls over credit card purchases. Bank accounts were not reconciled on a timely basis and accurately.</td>
</tr>
<tr>
<td><strong>Downsville Charter School, Inc.</strong></td>
<td>Material weakness in internal control over financial reporting</td>
<td>Inadequate segregation of duties in the accounting process to insure internal control. Too few people involved in the accounting system to insure internal control. Audit was not submitted on time.</td>
</tr>
<tr>
<td><strong>D’Arbonne Woods Charter School Inc.</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Four employees were paid approximately $4,100 over the board-approved pay scale. Also overpaid in the previous year, but contracts were renewed at the same rate. Education and experience levels were incorrectly classified for five employees who were underpaid $6,400. 10 of 29 time off requests reviewed were not signed off by a supervisor.</td>
</tr>
<tr>
<td><strong>Broadmoor Charter School Board Inc.</strong></td>
<td>Material weaknesses &amp; significant deficiencies in internal control over financial reporting</td>
<td>Current internal control structure or operation does not allow staff to prevent, or detect and correct misstatements in a timely manner. No documented evidence of periodic analysis, reconciliation and supervisory review of significant general ledger accounts (salaries and related benefits, and accrued liabilities).</td>
</tr>
<tr>
<td><strong>New Beginnings Foundation</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Audit not submitted on time.</td>
</tr>
<tr>
<td><strong>Community School for Apprenticeship Learning</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Audit not submitted on time.</td>
</tr>
<tr>
<td><strong>Community Leaders Advocating Student Success</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Audit not submitted on time.</td>
</tr>
<tr>
<td><strong>Edgar P. Harney Spirit of Excellence Academy</strong></td>
<td>Significant deficiency in internal control over financial reporting</td>
<td>Audit not submitted on time.</td>
</tr>
</tbody>
</table>

Source: Louisiana Legislative Auditor [http://www.lla.state.la.us/reports_data/Audit/]
Appendix B: Fraud Audit Methodology

Fraud audits involve six core analytical, technological, and investigative steps. The below fraud steps are those taught by Dr. Conan Albrecht, a professor who teaches fraud auditing techniques at Brigham Young University. The first three steps are those performed during a fraud risk assessment. The targeted fraud audit would begin at Step four.

**Analytical Steps:**
- **Step 1: Understand The Business**
- **Step 2: Identify Possible Frauds That Could Exist**
- **Step 3: Catalog Possible Fraud Symptoms**

**Technology Steps:**
- **Step 4: Use Technology To Gather Data About Symptoms**
- **Step 5: Analyze Results**
- **Automate Detection Procedures**

**Investigative Steps:**
- **Step 6: Investigate Symptoms**
- **Follow Up**

**Step 1: Understand the Business**—Develop a firm understanding of the business being examined. Having a detailed understanding of the business underlies the entire strategic fraud detection process. This step includes:
- Inclusion of an experienced business employee on detection team
- Tour the business
- Interview key personnel
- Analysis of financial statements
- Work with auditors/security personnel

**Step 2: Identify Possible Frauds That Could Exist**—Once fraud examiners feel confident that they understand the business, they determine what possible frauds might exist or could occur in the operation being examined. This risk assessment step requires an understanding of the nature of different frauds, how they occur, and what symptoms they exhibit. This step includes:
- Divide business unit into individual functions
- Determine the players
- Determine types of interactions between insiders and outsiders
- Ask questions such as:
  - How could employees commit fraud alone?
  - How could vendors commit fraud alone?
  - How could vendors/employees collude?
- Develop a list of possible frauds specific to this business unit

**Step 3: Catalog Possible Fraud Symptoms**—This step involves the cataloging of frauds identified in Step 2. A matrix, tree diagram, or brainstorming map can be created that correlates specific symptoms with specific possible frauds.
- Analytical anomalies
- Document or record symptoms
- Internal control symptoms
- Lifestyle symptoms
- Behavioral symptoms
- Tips and complaints
Step 4: Use Technology to Gather Data About Symptoms—Once symptoms are defined in Step 3, supporting data is extracted from company databases and other sources. While traditional audit procedures call for limited transaction tests, such as those currently employed by authorizer auditors, technology-based fraud-detection queries are run against full transaction populations. Because even significant frauds can occur in very few transactions, the use of sampling potentially misses fraudulent records (sampling error) and circumvents the ability of computers to quickly analyze full populations. This step includes:

- Pulling data from company databases.
- Creating custom data warehouses to store data.

Step 5: Analyze and Refine Results—Once relevant data are retrieved, they are compared against expectations and models. Computerized algorithms examine records and highlight anomalies, unknown values, suggestive trends, or outliers that should be analyzed directly by examiners. This step includes:

- Analysis using time algorithms, statistical queries, and other tools.
- Conducting iterative runs to hone results.

Step 6: Investigate Symptoms—Once anomalies are highlighted and determined to be indicators of fraud, they are investigated either using traditional or technology-based approaches. Investigation of leads are only done on anomalies that cannot be explained through continued analysis. This step includes:

- Use computer-based analyses for efficiency
- Work with auditors and/or security personnel
- Refine algorithms and queries from steps 4 and 5

Additional Activities—After Process: Fraud examiners then follow up on all identified symptoms. While finding fraud is certainly the primary objective, the process often highlights control weaknesses, ineffective systems, undocumented policies, and data errors. Each of these anomalies should be corrected to make company processes more efficient and effective. This step includes:

- Follow-up on suspected frauds
- Automate detection procedures
- Use lessons learned to cycle through the process again

Notes


4 Ibid.


7 Assumes 5 percent of total revenues lost to fraud. Calculation is conservative as it uses total Louisiana charter school revenue for 2014 at $831 million. Total revenue is derived by adding revenues for Type 5 and Type 2 charters (provided by the Louisiana Department of Education), and charters operated directly by the Orleans Parish School Board. Thus, there are 19 charter schools not included in the calculation. Sources: Orleans Parish School Board, 2014 Budget Book: http://www.opsb.us/wp-content/uploads/2012/10/BUDGET-BOOK-2014.pdf & Louisiana Department of Education 2013-14 Fiscal Data (Total Local State & Federal Revenue_Per Pupil): http://www.louisianabelieves.com/resources/library/fiscal-data

8 An authorizer is the entity that grants a charter school their charter. Authorizers also monitor charter schools for compliance with the provisions within their charter.

9 LAC 28: CXXXIX, Bulletin 126: Charter Schools

10 Calculated using LDOE Annual SPS Score and Enrollment Data, available here: http://www.louisianabelieves.com/resources/library/performancescores and https://www.louisianabelieves.com/data/310/ and https://www.louisianabelieves.com/data/reportcards/. Total revenue reported by using Louisiana charter schools and charter management organizations IRS Form 990s, and census and Louisiana average per pupil allotment.

11 Louisiana Department of Education: https://www.louisianabelieves.com/schools/charter-schools

12 Louisiana Legislative Audit, Financial Audit Services audit of the Louisiana Department of Education, 11/26/14; Ernie Summerville, Assistant Legislative Auditor and Director of Financial Audit Services, LLAO, telephone interview with the author March 9, 2015.


14 Bureau of Internal Audit, Annual Audit Plan, FYE 6/30/2015.

15 LDE Audit Resolution Process, from BESE board documents, 10/14/14, http://www.boarddocs.com/la/bese/Board.nsf/files/9PHNLNSD4C34/$file/AF_2.1_LDE_Process_for_Audit_Resolution.pdf

16 Louisiana Legislative Auditor, Audit of the Louisiana Department of Education, 11/26/14


21 Louisiana Legislative Auditor, charter school engagements, 2000-present, provided by email.

22 Louisiana Legislative Auditor, charter school engagements, 2010-present, provided by email. Also, Louisiana Legislative Auditor report search: http://www.lla.state.la.us/reports_data/


24 Louisiana Legislative Audit, Audit Report Search: http://www.lla.state.la.us/reports_data/

25 Assumes 5 percent of total revenues lost to fraud. Calculation is conservative as it uses total Louisiana charter school revenue for 2014 at $831 million. Total revenue is derived by adding revenues for Type 5 and Type 2 charters (provided by the Louisiana Department of Education), and charters operated directly by the Orleans Parish School Board. Thus, there are 19 charter schools not included in the calculation.

26 Louisiana Legislative Auditor: https://app.lla.state.la.us/PublicReports.nsf/A3D93A6CB50197C86257893005E9B73/$FILE/0001F3F2.pdf

27 Louisiana Legislative Auditor: https://app.lla.state.la.us/PublicReports.nsf/86256EA9004C005986256F4A00535F49/$FILE/03702539.PDF

28 Louisiana Legislative Auditor: https://app.lla.state.la.us/PublicReports.nsf/A3D93A6CB50197C86257893005E9B73/$FILE/0001F3F2.pdf

30 Louisiana Legislative Auditor: https://app.lila.state.la.us/PublicReports.nsf/6ED0278E7001D6DA862579F8007220A4/$FILE/0002A3B6.pdf


36 Louisiana Legislative Auditor: https://app.lila.state.la.us/PublicReports.nsf/FF7110E40359FB0C86257C600767F28/$FILE/000010F7.pdf

37 Louisiana Legislative Auditor: http://appl.lila.state.la.us/PublicReports.nsf/2323F88A1ED3CEC386257D0900589933/$FILE/000016BA.pdf


39 Source: https://www2.ed.gov/about/offices/list/oig/intvreports/x42k0002.pdf

40 Ibid.


45 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202015.pdf

46 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202015.pdf page 44


48 http://www.fraudessentials.com/asset-misappropriation/

49 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202015.pdf page 33

50 Louisiana Legislative Auditor, Audit of the Louisiana Department of Education, 11/26/14


54 Ibid.

55 Ibid.

56 Ibid.

57 Ibid.

58 Ibid.


63 Ibid.


67 Calculated using LDOE Annual SPS Score Data available here: http://www.louisianabelieves.com/resources/library/performance-scores and Total revenue reported by Louisiana charter schools and charter management organizations to the IRS using Form 990.


71 Louisiana Legislative Auditor: http://app.lia.state.la.us/PublicReports.nsf/0B6B9CAE61DC9C786257B6C006D881E/$FILE/00032CA4.pdf