



**REPORT HIGHLIGHTS**  
PERFORMANCE AUDIT

**Department should strengthen oversight of program spending**

**Our Conclusion**

The Arizona Department of Education (Department) administers the Empowerment Scholarship Accounts Program (Program), which provides state education monies to parents to pay for the educational expenses of their children who are not attending public schools and who meet statutory eligibility criteria. Statute also prescribes the educational expenditures that parents can make. The Department has established processes for distributing program monies and helping to ensure these monies are spent as required by statute, but should further strengthen its oversight of program spending. In addition, the Legislature should consider establishing a work group to determine if statutory changes are needed to further ensure appropriate spending of program monies. The Department should also continue to improve its eligibility determination process, complete its development and implementation of policies and procedures for safeguarding sensitive and personally identifiable information, and use its newly implemented information technology (IT) system to better manage program data.

**Program provides state education monies to parents of enrolled children**—Parents may enroll their child in the Program if the child meets statutory eligibility requirements, such as having a disability, attending a public school that the Department has assigned a letter grade of D or F, or who are eligible to attend kindergarten at such a school. To enroll a child, parents must agree in writing to not enroll their child in public school, spend awarded program monies only for statutorily prescribed educational purposes of the enrolled child, such as private school tuition and textbooks, and not accept a school tuition organization (STO) scholarship. Once enrolled, the Department determines an annual program award amount for each child and in fiscal year 2016, estimated awards ranged from approximately \$2,900 to \$31,500. The higher program award amounts are generally provided to children with disabilities. Program award monies are deposited into program scholarship bank accounts established for each child, and parents receive a debit card to then use these monies to purchase educational materials and services for their enrolled children. The Department works with the Arizona Office of the State Treasurer (Treasurer’s Office) to provide banking services for the Program.

**Department has prevented and identified misspending of program monies**—The Department has established various processes to help ensure program monies are spent appropriately, including preventing transactions at merchants whose goods and services are not related to education, such as fast food restaurants and lodging and hotels, and has worked with the Treasurer’s Office and bank to automatically deny these transactions. It has also worked with the Treasurer’s Office and bank to deny all cash withdrawals. In addition, the Department requires parents to submit quarterly expense reports and conducts reviews of these reports. Between August 2015 and January 2016, department staff identified more than \$102,000 in misspending, which included parents who spent program monies after enrolling children in public school, parents who did not submit required quarterly expense reports, and parents who purchased unallowed items. When misspending is identified, the Department may suspend the program scholarship bank account to prevent further misspending, request repayment of the misspent monies, remove the child from the Program, and/or refer the parent to the Arizona Attorney General’s Office for collections actions or a fraud investigation.

**Additional steps are needed to better safeguard program monies**—Although the Department has identified many instances of misspending, it should continue with its plans to adopt a risk-based approach for prioritizing its spending review to help ensure that it reviews the expenditures it identifies to be at higher risk for misspending in a timely manner. The Department reported that it has attempted to review all expenditures and will continue to do so, but given the volume of the quarterly expense reports it reviews and based on its available staff resources, we found that its expenditure reviews were not consistently conducted in a timely manner. In addition, the Department should develop and implement policies and procedures for more frequently and systematically monitoring spending using transaction reports that are generated by the bank’s electronic, online system. During the audit, department staff were inconsistently using these reports. Further, the Department should continue its efforts to enhance its enforcement and recovery efforts by completing and implementing policies and procedures for taking timely and consistent enforcement actions when it identifies misspending.



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**Legislature should consider forming a work group to study options for further safeguarding program monies**—We identified three additional issues that may place program monies at risk for loss and abuse that the Legislature should consider reviewing. These issues include parents' use of third-party payment services—PayPal and Square—which parents can use to make payments to merchants such as tutors and private schools, but where department staff have identified several potential instances of misspending; parents of children enrolled in the Program who may be benefiting financially from program monies; and the difficulty of identifying children enrolled in the Program who may have also received an STO scholarship.

## Recommendations

The Department should:

- Continue with its plans to adopt a risk-based approach for prioritizing its spending review;
- Develop and implement policies and procedures for using the bank's electronic, online system to generate and review transaction reports to monitor spending; and
- Complete and implement policies and procedures for taking timely and consistent enforcement actions.

The Legislature should consider forming a work group to determine if statutory changes are needed to further safeguard program monies.

## Department should continue its efforts to improve its eligibility determination process, safeguard sensitive information, and better manage program information

**Program operations need improvement in three areas**—First, the Department's processes for determining program eligibility have not consistently ensured that all program eligibility and program award decisions are correct and consistent. Based on a review of 20 program applications for children accepted into the Program in fiscal years 2012 through 2016, we found that the Department did not consistently verify submitted disability information and public school attendance, and inconsistently determined program award amounts. Second, the Department did not adequately protect sensitive information submitted by program applicants. Specifically, we found that files with personally identifiable information were not secured and access to electronic banking data was not limited to necessary department staff. Third, the Department's program data has been inaccurate and incomplete, hindering its ability to use this data to help manage the Program and accurately report on program results.

**Department should continue to strengthen various aspects of the Program**—The Department should continue with the efforts it initiated during the audit to improve its eligibility determination process, appropriately safeguard sensitive information, and better manage program data. Specifically, the Department should complete the development and implementation of policies and procedures for its eligibility determination process and safeguarding sensitive information. Additionally, the Department has partially implemented a new IT system and plans to expand this system's functionality throughout the summer of 2016 to help it better manage program data. The Department should complete the expansion of its new IT system and complete and implement policies and procedures for using this system.

## Recommendations

The Department should:

- Complete the development and implementation of policies and procedures for its eligibility determination process and safeguarding sensitive information; and
- Complete the expansion of its new IT system and complete and implement policies and procedures for using this system.