



Chapter:

# Program Integrity

# Introduction

## Purpose

Integrity ensures that a program operates effectively and transparently, with accurate use of funds, adherence to regulations, and delivery of quality services, while preventing fraud, waste, and abuse. Program integrity is far more than just fraud prevention—it's the backbone of a well-functioning program. It ensures that public resources are spent correctly, from accurately determining eligibility and setting appropriate payment amounts to delivering high-quality services and providing essential training for staff and beneficiaries to prevent improper payments. A comprehensive approach to program integrity includes systems and processes for payment integrity, internal controls, risk management, and improper payment prevention.

This chapter outlines the role of program integrity in administering ESA programs. It emphasizes best practices in risk management and the importance of quality assurance mechanisms based on industry standards. Designed for program administrators and policy makers, this chapter serves as a resource to designing an organizationally sound program environment that works for families.



## Approaches to Design

ESAs are fundamentally like other large government programs in that they aim to allocate public funds to achieve specific policy goals—in this case, providing families with greater flexibility in their educational choices. Given their similarities to other government-funded initiatives, ESAs should be administered using established best practices for auditing and oversight to ensure they operate efficiently, transparently, and accountably.

# Balancing Risk With Functionality

## Purpose

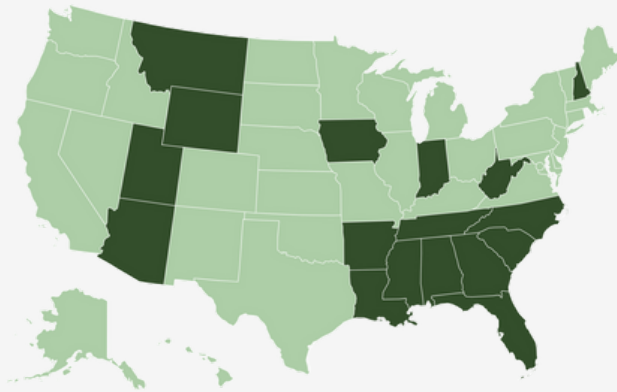
ESAs offer families the opportunity to curate their child's K-12 education with a portion of that child's state education funds. This funding empowers families to purchase education-related goods and services, enabling them to tailor every aspect of learning to their child's interests and needs. With this approach, families can customize curricula, choose supplemental materials, and facilitate learning in diverse environments. However, this shift in control over education funds creates a dynamic tension between state oversight and parental autonomy, raising the question: "Who's in charge?" Balancing the state's responsibility to manage the program within a regulatory framework and parents' right to pursue innovative educational methods requires careful planning and is essential for the program's success.

### ESAs in the United States

**17 states serving 500k+ students.**

*>40% growth year over year.*

*Expanded more rapidly post-COVID, following widespread school closures.*



## Expansion & Clampdown

The rapid expansion of ESA programs has commonly resulted in caseloads that surpass the sophistication of current scaling solutions and tools, resulting in heightened scrutiny on the quality and fidelity of program implementation.

Low risk tolerance among administrators, providers, and families, coupled with the fear of negative headlines, has led states to enforce rigorous oversight measures. The lack of capacity in government entities to implement new systems effectively, alongside a lack of commonly accepted definitions of educational goods and services, has resulted in convoluted and inconsistent policies. This environment is exacerbated by the absence of clear guidelines and the ongoing disagreement about what constitutes successful outcomes.

Consequently, many states have reverted to traditional regulatory frameworks, focusing on accreditation and credentials, and employing conventional measures of success such as test scores and standards. These actions, intended to ensure accountability, have instead created a burdensome landscape for parents, overshadowing the intended flexibility and autonomy that ESAs were supposed to offer.

Interestingly, many states have shifted away from traditional audit practices, even those outlined in the program statutorily, and have instead adopted a manual approval process for every expense, regardless of size. This approach involves scrutinizing each transaction individually, aiming to ensure compliance and prevent misuse, but it significantly increases the administrative burden and can slow down the approval process.

“A fundamental tension exists between controlling fraud and optimizing customer experience, because tighter fraud and customer protection controls often add friction to the customer experience.”

– McKinsey & Company (2022)

### Uncertainty of Allowable Uses Often Misrepresented as Fraud

The uncertainty surrounding the allowable uses of ESA funds often leads to misrepresentations of misuse or fraud. Due to the lack of a commonly accepted definition of educational goods and services, parents and administrators frequently find themselves navigating unclear policies. This ambiguity can result in expenditures being flagged as fraudulent when they stem from misunderstandings or differing interpretations of the rules. The fear of negative headlines and low risk-tolerance among program stakeholders exacerbates this issue, making it crucial to establish clear, consistent policies to prevent mischaracterizations of legitimate expenses.



## Consequences of This Approach

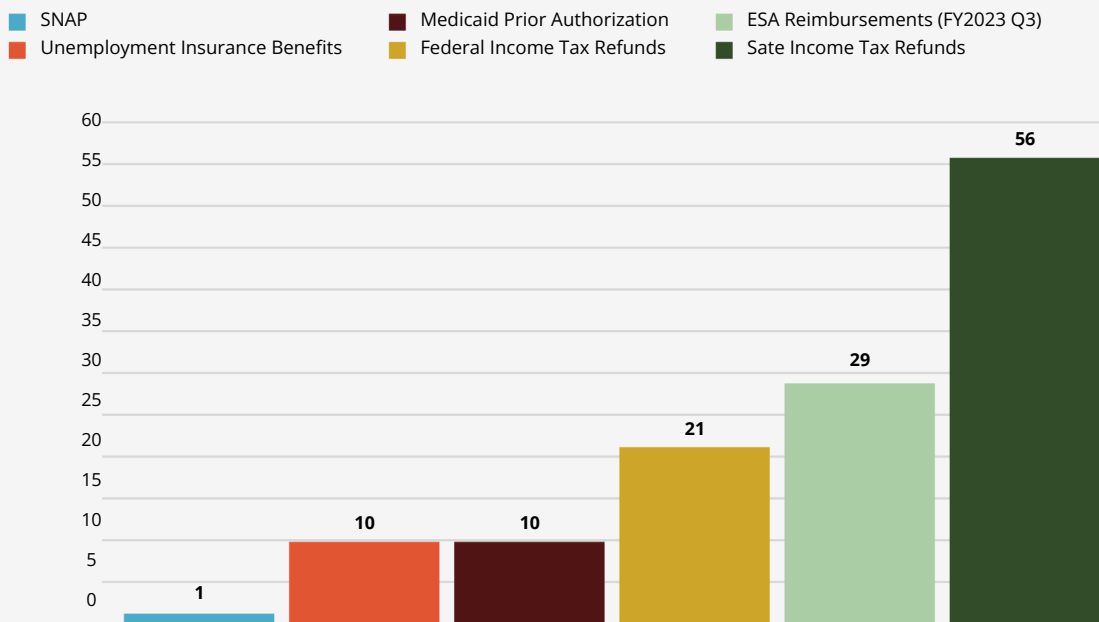
**Restricted Marketplace:** In all states, families are limited in how they can access their scholarship funds to make purchases through enclosed marketplaces of approved merchants, providers, goods and services.

**Restricted Access to Lawful Expenses:** Because of the broad and growing market of education, this means that families cannot always purchase the goods and services they want because too few education providers are approved to participate in the program.

**Delayed Payments to Families and Providers:** The prevailing approach of scrutinizing each expenditure in the scholarship program places an excessive burden on families, causing frustration and hindering their ability to navigate the ESA Program smoothly.

### Average Payment & Reimbursement Times

In general, comparable programs provide refunds or payments to taxpayers faster than the ESA program, which can take from 12 to 29 days.



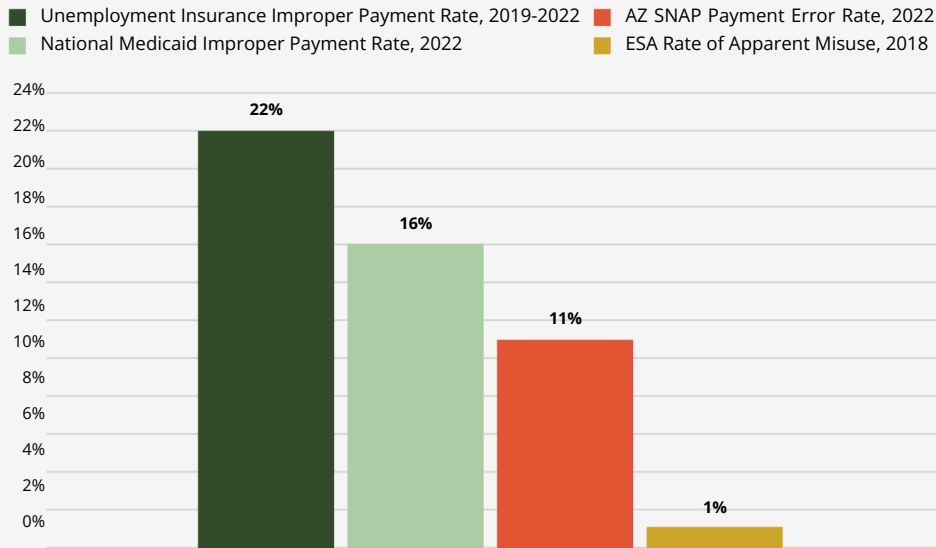
#### Days From Application to Payment/Reimbursement

Source: Dept of Revenue, Dept of Economic Security, Dept of Education • ESA reimbursement times are sourced from the Dept. of Education's two most recent ESA Quarterly Reports. The Q4 value is a weighted average of reimbursed and rejected processing times.

- **Low Rates of Misuse in ESA Programs:** Improper payment rates in the Arizona ESA program are a fraction of those in other government programs like Medicaid, Unemployment Insurance, and SNAP.
- **More Rigorous Reviews:** Generally, the accountability standards used to track expenditures of ESA funds are stricter and more onerous than those used in comparable programs.
- **Higher Program Integrity:** Despite more rigorous reviews—which one might expect to uncover more problematic transactions—ESA programs tend to have greater program integrity than major government programs.

### Improper Payment Rates

While national Medicaid/Medicare improper payment rates and Arizona SNAP Payment Error Rates have been decreasing, there is still some level of misuse tolerated in these programs.



Source: AZ Auditor General, US Department of Agriculture, Center for Medicaid Services

### Findings From Other Public Benefit Programs

**Table 3: Balancing Benefit Targeting and Benefit Delivery Costs**

While national Medicaid/Medicare improper payment rates and Arizona SNAP Payment Error Rates have been decreasing, there is still some level of misuse tolerated in these programs.

Program	Benefit Targeting and Program Complexity	Administrative Costs (Cents per benefit dollar)	Overpayments (Cents per benefit dollar)	Recipient Burden	Participation Rates (Percent Eligibles)
Food Stamps	High	15.8	4.5	High burden	65, 59**
Medicaid	High	5.1	May be large	High burden	66-70
SSI	Moderate	7.7	6.4	High burden	68
School Lunch	Mod/Low	2-14*	May be large	Low burden	75
EITC	Low	1.5*	23-28	Low burden	75-86**

Notes: \*Estimate is rough. \*\*Participation rate is measured among families, not individuals.

Source: Appendix Table 5 and Table 2

- Program Complexity Has Negative Impacts: policy design has lasting implications on participation and administrative cost.
- Defining qualifying educational expenses and targeting eligibility drives complexity.

### Types of Risk

It is crucial to recognize and account for unintended consequences that may arise from striving to achieve a zero-defect program at scale. Overly stringent auditing practices, such as scrutinizing every single expense manually, can inadvertently lead to programmatic inefficiencies, administrative burnout and overreach. The following table outlines various types of risks that can arise.

Risk Type	Description	Impact
Paralysis by Analysis	Excessive focus on identifying and preventing every possible instance of fraud leads to over-analysis and delays in decision-making.	This can cause significant inefficiencies, slow down program implementation, and frustrate families who experience delays in receiving funds or approvals.
Over-Auditing/ Monitoring	Conducting more audits and monitoring than necessary due to fear of fraud, which can overwhelm administrative resources.	Increases administrative costs, creates burdensome documentation requirements for families and service providers, and can delay educational services to children.
Lack of Internal Controls	Insufficient internal mechanisms to prevent, detect, and correct fraud within the ESA program.	Increases the risk of internal fraud, errors, and inefficiencies, potentially leading to significant financial losses and damage to the program’s reputation.
Focus Only on External Fraud	Concentrating efforts solely on detecting fraud committed by beneficiaries, while ignoring potential internal fraud by employees or service providers.	Internal fraud can go undetected, posing significant financial and operational risks.
Not Using Best Practices from Other Programs and Industries	Failing to adopt and adapt best practices in fraud monitoring and auditing from other established programs and industries, such as financial services or healthcare.	Missed opportunities for improved fraud detection and prevention techniques, leading to higher susceptibility to fraud and inefficiencies.

*Continued on next page*

<p>Inadequate Training and Resources</p>	<p>Insufficient training for staff involved in expense reviews and auditing, combined with a lack of adequate resources to conduct thorough audits.</p>	<p>Poorly trained staff may overlook fraud indicators, and inadequate resources can lead to superficial audits, compromising the program's integrity.</p>
<p>Technological Deficiencies</p>	<p>Lack of advanced technological tools for monitoring and auditing transactions, such as data analytics, automated expense reviews and documentation validation.</p>	<p>Reduces the administrator's ability to prioritize expense reviews and efficiently detect and analyze suspicious activities.</p>
<p>Inconsistent Policy Enforcement</p>	<p>Inconsistent application and enforcement of policies and procedures.</p>	<p>Creates loopholes that can be exploited and leads to unequal treatment of beneficiaries, undermining the program's fairness and integrity.</p>
<p>Inadequate Communication and Feedback Mechanisms</p>	<p>Poor communication channels and feedback mechanisms between program administrators and families.</p>	<p>Delays in addressing issues, lack of transparency, and missed opportunities for continuous improvement in fraud prevention strategies.</p>
<p>Specialty &amp; Focus</p>	<p>Exerting broad and sole oversight over auditing practices that fall outside of an administrator's specialty.</p>	<p>Creates closed loop decision making and does not properly derisk monitoring and audits to a specialized third party.</p>

“The reality is, fraud is exceedingly rare, yet dramatically overemphasized in ESA programs.”

– Hayden DuBlois, 2023 Research Findings on ESA program integrity



# ESA Audits: Models and Recommendations

## Purpose

This section examines audits and compliance monitoring within the ESA space. It outlines various methodologies required by programs, providing a view of how these programs operate. Additionally, it identifies opportunities for improved oversight and increased efficiencies that can be learned from other states and industries implementing best practices.



## Administrator Discretion

ESA programs vary significantly, and statutory guidance regarding program integrity is often limited, typically only indicating the necessity for such measures without specifying detailed provisions. The responsibility for developing the specifics of program integrity usually falls to program administrators and rule-making bodies. To build a foundational understanding, it is crucial to thoroughly review the program's establishing statutes. This review should aim to identify the scope of audit authority, compliance monitoring, internal controls, fraud prevention measures, and transparency. The focus should be on addressing the following questions:

- To which entity has audit authority been granted?
- What is the frequency of the audit required by statute?
- What is the scope of the audit required by statute?
- What is the sample size of the audit required by statute?
- Is there authority to contract with outside entities to conduct audits and compliance monitoring?
- Does the statute create a floor and/or ceiling for audits?
- Is there administrative discretion to exceed an audit floor or ceiling?
- Does the statute require fraud monitoring?
- Are there designated fraud reporting hotlines, websites, or email addresses?
- Is there a requirement to report fraud to a local or state law enforcement agency?
- Is there a definition or definition by reference of fraud?
- Are there required reporting mechanisms (e.g. annual/quarterly reports, regularly released programmatic data, customer satisfaction ratings)?
- Is there language that allows external public and private third parties to grant resources?
- Do statutes or rules require the establishment of internal controls?
- Is line-item funding or a sub-account established for audit and monitoring purposes?
- Is there a statutory requirement to hire audit/fraud monitoring personnel?

## What Kind of Audits Should Exist in Every ESA Program?

### Financial Audits

**Purpose:** To verify financial records' accuracy and ensure that funds are used in compliance with regulations and standards.

**Applicability:** Given the large number of transactions and the significant amount of funds involved in ESA programs, financial audits are crucial. These audits help ensure that all financial transactions are accurately recorded and that financial statements provide a true and fair view of the program's financial status.

### Performance Audits

Purpose: To assess the effectiveness, efficiency, and economy of the program.

Applicability: Performance audits are particularly useful for a program to evaluate whether the ESA funds are achieving the intended educational outcomes. Such audits investigate how well the program is managed, adequacy of service delivery to families and providers, whether it meets the needs of the participants, and if there are any areas where efficiency could be improved.

### Compliance Audits

Purpose: To check adherence to laws, regulations, and internal policies.

Applicability: Compliance audits focus on ensuring that the program operates within the legal framework set out for educational funds and scholarships. This type of audit would verify that all program activities comply with state laws, federal regulations, and specific program rules regarding eligibility and fund usage.

## What Kind of Audits Are Being Used Today?

To date, states have taken to auditing ESA programs by employing a variety of standards including a mixture of the following financial audit types:

#### Annual Audit

A systematic review conducted once a year to evaluate the financial statements and transactions of an ESA program for accuracy and compliance with applicable standards and regulations.

#### Sample Audit

An auditing process that examines a representative subset of transactions or accounts, rather than reviewing all transactions, to infer the overall compliance and integrity of the program.

#### Random Audit

An unpredictable, unscheduled audit where transactions or accounts are selected at random, ensuring all participants understand they could be reviewed at any time.

#### Manual Transactional Audit

A detailed examination of specific financial transactions within an ESA program to verify their accuracy, authorization, and alignment with program guidelines and policies.

#### Risk Based Audit

Targets areas of the ESA program identified as high risk for errors, fraud, or non-compliance, focusing auditing efforts where they are most needed to mitigate potential issues.

## The Landscape of Audits in ESA Programs

Like most administrative functions, implementing an audit strategy involves balancing tradeoffs to effectively prevent fraud, ensure programmatic compliance, and enhance program efficiency. Audit methodologies must be tailored to strike a balance between thoroughness and efficiency. This involves designing audits that are proportional to the needs and scale of the program, ensuring they are not excessively burdensome while still providing high-quality assurance that they meet rigorous standards.

State	Eligible Expenses	Statute	Third-Party Audit Option	Annual Audit Requirement	Sample/ Random Audit Requirement	Risk Based Audit Requirement	Notes
Alabama	<u>Eligible Expenses</u>	<u>CHOOSE Act</u>	No	No	No	No	Hybrid Tax Credit Program Subject to Alternate Oversight
Arizona	<u>Eligible Expenses</u>	<u>ARS 15-2403(B)</u>	Yes	Yes	Yes/Yes	Yes (not implemented)	Monitors and manually approves every transaction
Arkansas	<u>Eligible Expenses</u>	<u>Ark. Code § 6-18-2504(C)</u>	Yes	Yes	No/Yes	No	New Program
Florida	<u>Eligible Expenses</u>	<u>Compliance audits every three years. Fla. Stat. § 11.45(2)(l)</u>	Yes	No	No/No	No	<u>Admin conducts separate audits that are reported by AG</u>
Georgia	<u>Eligible Expenses</u>	<u>Ga. Code § 20-2B-5</u>	Yes	Yes	No/Yes	No	New Program
Indiana	<u>Eligible Expenses</u>	<u>Ind. Code § 20-51.4-3-3</u>	Yes (Required)	Yes	N/A	N/A	New Program
Iowa	<u>Eligible Expenses</u>	<u>Iowa Code § 257.11B</u>	No	No	No/No	No	Method of audits left to DOE discretion
Louisiana	<u>Eligible Expenses</u>	<u>Bill Chaptered: Act No. 1</u>	No	Yes	No/Yes	No	New Program

State	Eligible Expenses	Statute	Third-Party Audit Option	Annual Audit Requirement	Sample/ Random Audit Requirement	Risk Based Audit Requirement	Notes
Mississippi	<u>Eligible Expenses</u>	<u>Miss. Code Ann. § 37-181-11</u>	Yes	Yes	No/Yes	No	May conduct audits more frequently than annually
Montana	<u>Eligible Expenses</u>	<u>Mont. Code Ann. §§ 20-7-1 through 10</u>	No	No	No/No	No	No audit requirement. New Program
New Hampshire	<u>Eligible Expenses</u>	<u>N.H. Rev. Stat. Ann. § 194-F:4</u>	Yes	Yes	No/Yes	No	
North Carolina	<u>Eligible Expenses</u>	<u>N.C. Gen. Stat. § 115C-597</u>	Yes	Yes	Yes/Yes	No	
South Carolina	<u>Eligible Expenses</u>	<u>S.C. Code § 59-8-145</u>	Yes	Yes	No/Yes	No	May conduct audits more frequently than annually
Tennessee	<u>Eligible Expenses</u>	<u>Tenn. Code Ann. § 49-6-2606</u>	Yes (Required)	Yes	Yes/Yes	Yes	Comptroller completed financial, compliance and performance audit of the ESA program
Utah	<u>Eligible Expenses</u>	<u>Utah Code § 53F-6-405</u>	Yes (Required)	Yes	No/Yes	No	Utah requires annual review by an independent CPA

State	Eligible Expenses	Statute	Third-Party Audit Option	Annual Audit Requirement	Sample/ Random Audit Requirement	Risk Based Audit Requirement	Notes
Wyoming	<a href="#">Eligible Expenses</a>	<a href="#">Laws 2023, Ch. 108</a>	Yes	Yes	Yes/Yes	N/A	Only state to require a sample threshold. New Program
West Virginia	<a href="#">Eligible Expenses</a>	<a href="#">W. Va. Code § 18-31-10</a>	Yes	No	No/Yes	No	Frequency of audits "as needed."



### Integrated Compliance Monitoring & Audits

As shown above, statutes can specify the type and regularity of financial audits or defer to the rulemaking body/administrator to determine the monitoring and audit scope. Notice that the predominant statutory framework for ESA programs include broad requirements for conducting financial audits but are silent as to whether continuous monitoring, compliance and performance audits are completed at all.

Almost universally, programs housed within state agencies are audited by the state auditor general for compliance and performance (though to varying degrees). Many states do not conduct performance and compliance audits of ESA programs specifically but upon the larger agencies and organizations they're attached to. As programs grow, these specific audits will become more necessary to ensure ESA families and taxpayers as being served optimally by the program.

Assessing an audit through an integrated approach, tailored to the size and complexity of the program, offers several significant benefits and aligns with best practices in the field of auditing. This method ensures a holistic understanding of the program's operations, financial integrity, compliance with regulations, and the effectiveness of its information systems. By considering the unique aspects of each program—whether it's a small, simple operation or a large, complex one—auditors can allocate resources more effectively, pinpoint risks accurately, and provide targeted recommendations that drive meaningful improvements. This approach fosters a deeper collaboration between auditors and program stakeholders, leading to enhanced transparency and trust. Moreover, it supports the dynamic nature of ESA programs, allowing audits to adapt to changes in size, scope, and operational challenges over time. Ultimately, an integrated audit approach not only elevates the audit's quality but also enhances the program's ability to fulfill its mission effectively and efficiently.



## Recommendations

### Remove Conflicts of Interest & Improve Program Efficiency

**Recommendation:** States should adopt independent third-party audits as a standard.

**Context:** This would de-risk the administrative body by ensuring that audits are conducted independently, reducing potential conflicts of interest and enhancing transparency. Additionally, third-party auditors are more likely to use the latest technology and best practices, which can improve the efficiency and accuracy of the audit process, leading to a more seamless customer experience. Engaging stakeholders, including parents, educators, and administrators, in the development and refinement of audit policies ensures that they address practical concerns and promote transparency.

### Require Risk-Based Audit Measures to Scale

**Recommendation:** Adopt risk-based audit measures that trigger when an ESA program reaches a student enrollment benchmark identified by the state legislature in statute or adopted through rule.

**Context:** This ensures that larger programs, which inherently carry more risk, receive more targeted oversight without diverting resources from other aspects of program delivery. By establishing a clear enrollment benchmark, states can ensure that resources are allocated effectively and that higher-risk programs receive the necessary scrutiny to safeguard public funds and ensure compliance.

### Adopt Internal Controls

**Recommendation:** Require ESA administrators to engage an independent third party to develop, adopt, implement and evaluate internal controls that meet industry standards.

**Context:** Independent third-party oversight of internal controls helps prevent internal cases of fraud by ensuring that the controls are designed and implemented without bias. This measure enhances the integrity of the ESA program by ensuring that robust safeguards are in place to detect and prevent errors and fraud.

### Integrated Financial Audits

**Recommendation:** Implement continuous third-party monitoring of parent expenses using risk-based methods, culminating in at least an annual financial audit with allowable random sample audits throughout the year.

**Context:** Continuous monitoring allows for real-time detection of irregularities and ensures that parent expenses are being tracked accurately. Annual audits, complemented by random audits, provide a comprehensive review of the program's financial activities, ensuring that funds are used appropriately and in accordance with program guidelines. Utilizing automated transaction monitoring systems and real-time reporting dashboards can enhance the effectiveness of these audits.

### Compliance and Performance Audits

**Recommendation:** Require every ESA program or third-party administrator of an ESA program to receive a compliance and performance audit by an independent third party once every three years.

**Context:** Regular compliance and performance audits ensure that ESA programs are not only adhering to legal and regulatory requirements but are also achieving their intended outcomes. Independent audits conducted every three years provide a thorough assessment of the program's effectiveness and identify areas for improvement. Establishing mechanisms for continuous feedback from auditors and program stakeholders allows for regular updates and refinements of audit procedures, ensuring that the audit program evolves in response to emerging risks and changing regulatory requirements.

# Reevaluating Misspending in the Arizona Empowerment Scholarship Account Program: A Case Study

## Purpose

This case study examines the claims of historical misspending within the Arizona Empowerment Scholarship Account (ESA) program. It aims to analyze available data and reports, particularly from the Arizona Auditor General, to determine the verifiable extent of misspending and assess whether it has been overestimated or underestimated.



## Case Presentation

## Background

The ESA program was established in 2011 to provide families with greater educational choice. Originally created to serve students with disabilities, the program has since expanded to include a broader range of students, including those from failing schools, children of military families, and, eventually, all students in Arizona. The ESA program empowers parents to use state funds allocated for their child's education on various educational expenses, including private school tuition, tutoring, online courses, and educational therapies. By 2023, the program had grown significantly, with over \$304 million distributed to participating families.

## Controversy Over Misspending

As the ESA program expanded, concerns about potential misspending began to emerge. Critics argued that the program lacked sufficient oversight and that state funds were being misused by some participants. Media reports raised alarm over cases where ESA funds were allegedly spent on non-educational expenses. The controversy fueled a narrative that the ESA program was rife with fraud and abuse, leading to calls for stricter regulations or a dismantling of the program entirely.

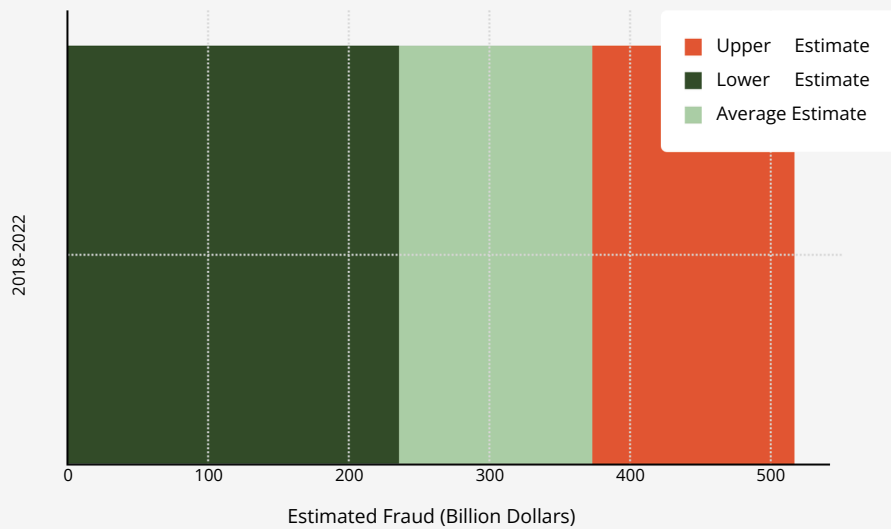
While every government program differs greatly from the next in funding, staffing, technology and policy. It is important to note that the Arizona ESA program, since its inception, has been a subject of great public and political debate. "My concern is that it has expanded so quickly and it has so few controls over it compared to public schools, and charter schools even, that it is open for abuse, and that's what I'm trying to ward off here," declared Arizona Attorney General Kris Mayes in August of 2023.

But what information is being relied upon to draw such conclusions? Is there data to support claims of abuse within the Arizona ESA program?

## Benchmarks For Misspending in Large Government Programs

The U.S. Government Accountability Office (GAO) estimates that annual fraud in federal government programs could be as high as \$521 billion or about \$1,600 per person in the US, with an average estimate of approximately \$377 billion for the period between 2018 and 2022. That would make misspending in government programs the sixth largest federal agency, spiking to as high as 7% of total spending, while individual programs can reach much higher.

### Estimated Annual Fraud in U.S. Government Programs (2018-2022)



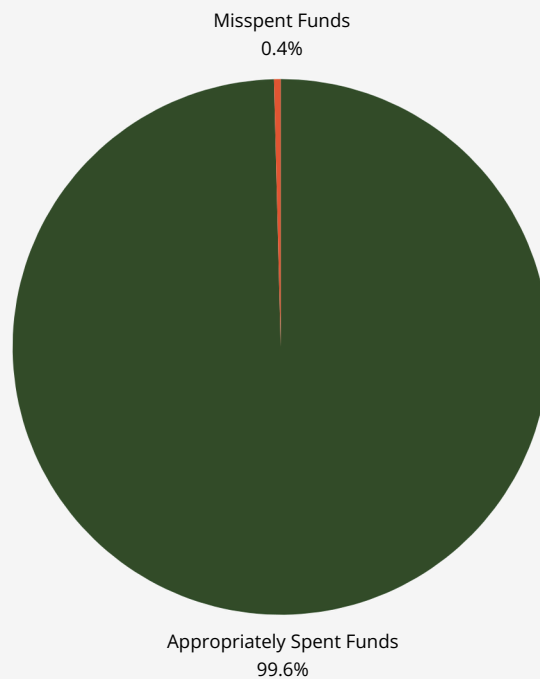
For its part, the Arizona ESA program has implemented a rigorous audit process, requiring that every one of the hundreds of thousands of expense submissions to the Arizona Department of Education (“ADE” or “the Department”) each year be manually reviewed. This approach, while intended to ensure accountability, significantly exceeds standard auditing practices.

#### ESA Audit Timeline

##### 2016 Auditor General Report: Performance Audit

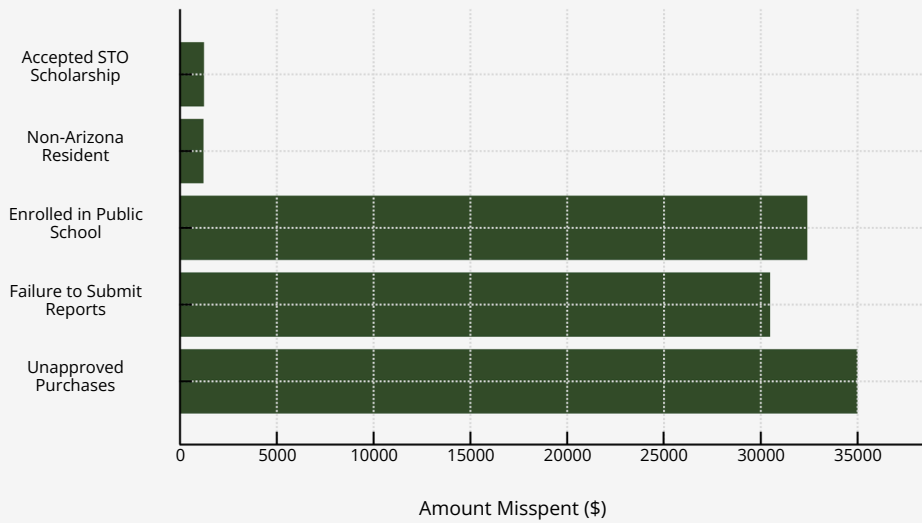
In 2016 the auditor general issued its first report of the ESA program. Finding \$102,602 in “misspent funds” against \$25.8M payments made by parents.

### Misspending vs. Total ESA Program Funding (FY 2016)





### Breakdown of Misspending in the Arizona ESA Program (Aug 2015 - Jan 2016)

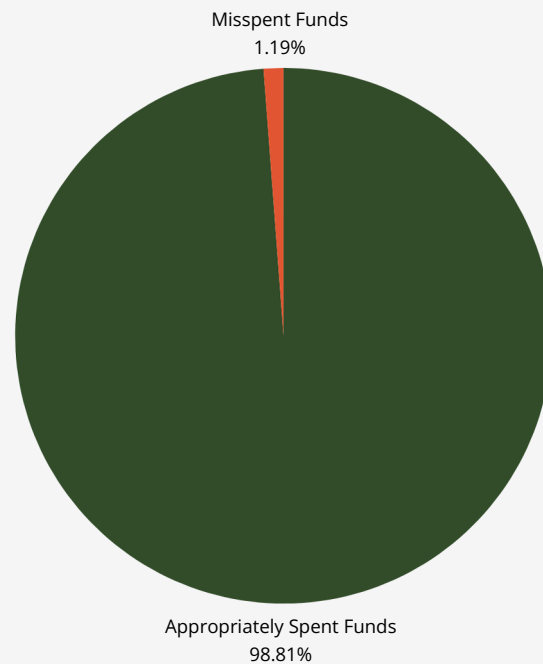


Of the \$102,602 labeled “misspending,” 34.83% amounted to unapproved purchases, while the majority of misspending occurred due to failure to submit timely paperwork or families not removing their child from public school in a timely manner to receive the scholarship. Still, \$102,602 or 0.40% of total program assets flagged for misspending was met with further calls to reign in the program.

#### 2016 Auditor General 24 Month Follow-Up

In the follow-up audit for fiscal year 2018, the total misspending identified was approximately \$700,000, which represented 1.19% of the total \$58.7 million in program funding for that year. Local media reports focused on individual transactions from the auditor general’s report highlight individual bad actors without identifying 98.81% of ESA funds were appropriately spent.

### Misspending vs. Total ESA Program Funding (FY 2018)



*2020 Auditor General Special Audit The 2020 special audit did not identify the figure for program misspending.*

ABC15 ESA Financial Report (October 2, 2023)

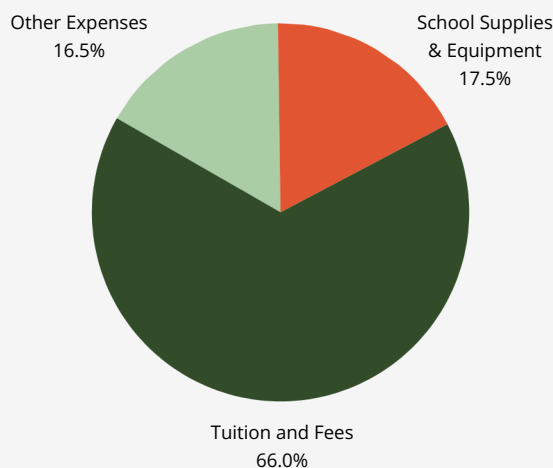
The latest public review of ESA spending was a local media outlet’s forensic review of transactional data for the 2022-2023 school year. The outlet pointed out a few specific purchases from among the more than 67,000 ESA program participants, highlighting expenses at “golf stores” and on “martial arts training,” but did not allege widespread fraud. The report focuses on what government watchdogs like GAO would call “improper payments.” These could include overpayments, underpayments, payments to ineligible recipients, or payments that were not properly documented. Most notably, the piece raised questions about the types of expenses being approved by the Department and the freedom the law gives to parents.

“The ESA program is not going to regulate where parents should seek services for their children, including driving schools,” Ward said. “While you may think this may not be a good use of that family’s ESA funding, at the end of the day, they get a fixed amount of money, and if that’s how they’re going to choose to use it, that’s their prerogative.”

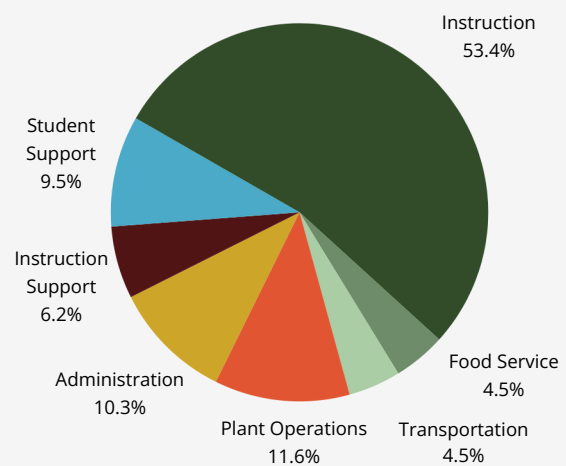
– John Ward, ESA Program Director

In a breakdown of parent spending between ESAs and [Arizona public schools](#), rates of “classroom spending” were similar, with savings being found by ESA parents in areas like plant operations, food services, and the cost of administration in public schools. These savings give families the ability to enroll in unbundled extracurricular activities like driving school or martial arts to supplement for the advantages of infrastructure offered in a public school (e.g. sports fields and facilities, theaters, meal programs, technology and science labs, school trips and transportation).

Overall ESA Spending Breakdown



Public School Spending Breakdown



In short, ESA parents filled the gaps left behind by not attending a traditional public school in myriad ways: instead of football gear, students took martial arts lessons; instead of shop class, students raised chickens or grew vegetables.

## Conclusion

The analysis of misspending within Arizona's ESA program, as reported by the auditor general, reveals that the rate of misspending is significantly lower than the national averages found in other government programs. While national programs often report misspending rates as high as 7%, the ESA program has remained below 2%, even with its rapid expansion. This suggests that while issues of misspending exist, they are not as prevalent as critics have claimed.

“...improper payment rates in the ESA program are a fraction of those in other government programs like Medicaid, Unemployment Insurance, and SNAP.”

– Glenn Farley, *Redefining Accountability: A Path to Empowerment in Arizona's ESA Program*

ADE does not suffer from a lack of auditing, but an excess of it. The current audit approach, which reviews every expense manually, exceeds standard best practices to the point of inefficiency. Instead, ADE should adopt a risk-based audit process, focusing on high-risk transactions and patterns, which would allow for more efficient use of resources while still maintaining accountability.

“[ADE should continue] strengthening its spending review process, such as continuing to develop a risk-based approach for prioritizing its spending reviews and using all available tools to detect misspending.”

– Arizona Auditor General Report, 2016

Finally, much of the criticism directed at the ESA program stems from a misunderstanding or purposeful mischaracterization of its core purpose: to promote educational freedom and flexibility for families. The program was designed to move away from the bureaucratic aspects of public schools, offering parents the autonomy to choose the best educational path for their children.

Often, families will opt to curate an education with their ESA precisely because their kid needs something different. The program should meet families with trust, not with more hurdles on their journey to best serve their kids' needs.