

# FLORIDA VIRTUAL SCHOOL

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## Operational Audit

Performed Pursuant to  
Section 1002.37(11), Florida Statutes



## BOARD MEMBERS AND PRESIDENT/CHIEF EXECUTIVE OFFICER

The Florida Virtual School Board of Trustees and the President/Chief Executive Officer who served during the 2012-13 fiscal year are listed below:

### Board Member

Robert C. Muni	Chair to February 22, 2013 (1)
Deborah S. Jallad	To August 21, 2012 (2)
Michael H. Olenick	From February 22, 2013, Chair from March 12, 2013
Lady Dhyana G. Ziegler, Ph.D.	Vice Chair from June 11, 2013 (3)
Suzanne O. Martin	
Tammie J. Nemecek	
Brian S. Cunningham	
Linda J. Pellegrini	

Julie E. Young, President/Chief Executive Officer

- (1) Term expired September 10, 2012, but was extended to February 22, 2013. There was no Chair from February 23, 2013, to March 11, 2013.
- (2) This Board position remained vacant as of June 30, 2013.
- (3) Lady Ziegler was the first Vice Chair of the Florida Virtual School Board of Trustees.

The audit was conducted by Nancy Heyman, CPA, and supervised by Brenda C. Racis, CPA. The information technology portion of this audit was conducted by Chris Gohlke, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 412-2863.

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**FLORIDA VIRTUAL SCHOOL****SUMMARY**

As required by Section 1002.37(11), Florida Statutes, the Auditor General has conducted an operational audit of the Florida Virtual School (FLVS), including the Florida Virtual School Global. Our operational audit focused on the administration of responsibilities relating to personnel; procurement and contracting; revenue production; school funds, including internal funds; student enrollment records; franchise agreements; information technology utilization, assets, and security; performance measures and standards; and accountability.

**FLVS FINDINGS AND RECOMMENDATIONS**

Our audit disclosed areas in which enhancements in the FLVS controls and operational processes were needed to better promote and encourage compliance, economic and efficient operations, and the safeguarding of assets. The results of our audit are summarized below:

**ADMINISTRATION MANAGEMENT AND BOARD POLICIES**

**Finding No. 1:** The Board had not prescribed principles and procedures to administer and control local school funds, contrary to law. Also, FLVS management implemented revenue-generating strategies and course fees without Board approval. In addition, accountability over restricted resources received from patents, copyrights, trademarks, and licenses could be improved.

**Finding No. 2:** The Board needed to enhance its travel-related policies and procedures.

**Finding No. 3:** Controls over electronic funds transfers needed to be enhanced.

**Finding No. 4:** The Board could enhance its policies and procedures for identifying and reporting suspected illegal or dishonest behavior.

**PERSONNEL ADMINISTRATION AND COMPENSATION**

**Finding No. 5:** Hiring practices needed to be improved to ensure proper verification of employment history and educational and disciplinary backgrounds and the use of timely executed employment contracts as required.

**Finding No. 6:** Certain administrative positions were paid salaries that were not included on the Board-approved salary schedules, and the President/Chief Executive Officer did not authorize certain salary supplements, contrary to Board policy.

**Finding No. 7:** Employment contracts did not include a provision required by, and the FLVS made severance payments that appeared to be contrary to, Section 215.425, Florida Statutes.

**PROCUREMENT PRACTICES**

**Finding No. 8:** The administration of contractual services needed to be enhanced.

**Finding No. 9:** Controls over purchasing cards needed to be strengthened.

**FRANCHISES**

**Finding No. 10:** The Board needed to establish written policies and procedures that provide for appropriate monitoring of compliance with franchise agreements.

**STUDENT ELIGIBILITY, ENROLLMENT, AND PERFORMANCE**

**Finding No. 11:** Controls needed to be improved to ensure students receiving part-time instruction are eligible for such services.

**Finding No. 12:** The FLVS needed to enhance its procedures to ensure that forecasted enrollments reported to the Florida Department of Education are supported by FLVS records.

**Finding No. 13:** The Board had not adopted required performance measures and standards and an accountability system, contrary to law.

#### **INFORMATION TECHNOLOGY**

**Finding No. 14:** Some inappropriate information technology (IT) access privileges existed.

**Finding No. 15:** The FLVS had not developed and tested a written disaster recovery plan for the restoration of critical FLVS processing or recovery of the corresponding data files, including school and operational data.

**Finding No. 16:** The FLVS IT security controls related to user authentication needed improvement.

### RECOMMENDATION FOR THE LEGISLATURE

**Section 1002.37, Florida Statutes, could be revised to clarify applicability of the State Board of Education rules to the FLVS.**

### BACKGROUND

The FLVS was established pursuant to Section 1002.37(1)(a), Florida Statutes, to develop and deliver online and distance learning education. The mission of the FLVS is to provide students with technology-based educational opportunities to gain the knowledge and skills necessary to succeed. The Commissioner of Education monitors and reports the FLVS's performance to the State Board of Education and the Legislature, pursuant to Section 1002.37(1)(a), Florida Statutes.

The FLVS offers online courses to students residing in the State of Florida and anywhere in the world. The FLVS reports full-time equivalent (FTE) student credit completions for courses offered to students who are Florida residents to the Florida Department of Education for funding through the Florida Education Finance Program (FEFP). For students who are not Florida residents, the FLVS Global charges tuition for courses taken. The FLVS Global operates as a separate division within the FLVS.

For Florida residents, the FLVS Full-Time (FLVS FT) program is open to any public, private, or home school student in kindergarten through grade 12. In addition, the FLVS offers individual course enrollments to Florida students meeting certain eligibility criteria through FLVS Part-Time (FLVS PT). The FLVS may also enter into franchise agreements with Florida school districts and establish the terms and conditions governing the agreements.

FLVS's governing body is the Board of Trustees (Board), which is composed of seven members appointed by the Governor to four-year staggered terms. The Board is to identify appropriate performance measures and standards based on student achievement that reflect the FLVS statutory mission and priorities and implement an accountability system that includes assessment of the FLVS effectiveness and efficiency in providing quality services that encourage high student achievement, seamless articulation, and maximum access. The executive officer of the Board is the appointed President/Chief Executive Officer. For the fiscal year ended June 30, 2013, the FLVS reported 38,272.48 unweighted FTE and received approximately \$200 million in State funding for those FTE.

FLVS offices are located in Orlando, Florida, and its production IT environment is located in Tampa, Florida. The FLVS hosts and maintains systems for student information and registration for all FLVS PT students. The major systems for these functions include Virtual School Administrator (VSA), Admissions and Registration (A&R), and Master Admissions and Registration System (MARS). From VSA, part-time students are able to access the Educator Learning Management System (LMS) that provides the educational content components. The LMS is supplied under contract by Ucompass.com and additionally includes links to other educational resources that are also provided under contract. FLVS FT students attend Connections Academy, an FLVS educational partner, that provides student

information, registration, and learning management system services to the FLVS under contract. Finally, the FLVS uses Terms 20-20 by Educational Data Resources as its application service provider for its finance and human resource systems.

## FLVS FINDINGS AND RECOMMENDATIONS

### Administration Management and Board Policies

#### Finding No. 1: School Funding Sources

Section 1002.37(2)(d), Florida Statutes, requires the Board to prescribe principles and procedures to administer and control school funding, and Section 1002.37(2)(c), Florida Statutes, requires that revenues from patents, copyrights, trademarks, or licenses be used for marketing, research, and development to improve courses and student services. This statute also requires that the Board aggressively seek avenues to generate revenues to support its future endeavors and enter into agreements with distance learning providers. Board Policy and Procedure No. F014 requires that the President/Chief Executive Officer establish and implement collection efforts for receivables owed to the FLVS, and FLVS's Standard Operating Procedures (SOP) Manual establishes the basis for assessing student tuition, including processes used for determining course fees.

For the 2012-13 fiscal year, the FLVS received funding from various sources. For example, funding sources included \$26.7 million generated by the FEFP for full-time students enrolled in the Connections Academy, an educational partner that provides teaching services for the FLVS; \$2.6 million from franchise fees; \$2.2 million from patents, copyrights, trademarks, and licenses; \$2.2 million from out-of-State student tuition; and \$2.8 million from training service fees, course maintenance fees, and other miscellaneous revenues.

While the FLVS established records to account for school funds, the Board did not prescribe principles and procedures to administer and control local school funds, contrary to Section 1002.37(2)(d), Florida Statutes, which may have contributed to the following:

- FLVS management developed a global business strategy that included certain avenues that the FLVS could use to generate revenue, such as funding from the international market, using resellers to sell FLVS educational services and related products, customized development and consultation of professional training services, and other strategies. According to FLVS personnel, the FLVS has begun implementing these strategies and recorded approximately \$2.7 million in revenues from these strategies for the 2012-13 fiscal year. However, FLVS records did not evidence Board consideration or approval of these strategies.
- During the 2012-13 fiscal year, the FLVS charged a fee of \$400 each term per course for out-of-State students. FLVS personnel indicated that the fee amount was based on legislative feedback and courses needed for grade completion and that the fee was consistent with other virtual schools. However, FLVS records did not evidence how FLVS personnel determined the reasonableness of the fee charged or the Board's consideration or approval of the fee.
- For the 2012-13 fiscal year, the Global Services Enterprise Fund<sup>1</sup> reported total revenues and expenditures of \$4.5 million and \$4 million, respectively; however, the FLVS recorded \$2.2 million of restricted resources from patents, copyrights, trademarks, and licenses revenues with other moneys in the Global Services Enterprise Fund.

Absent Board-prescribed principles and procedures to appropriately administer and control school funds and Board-approved revenue-generating strategies and course fees, there is an increased risk that revenue-generating

<sup>1</sup> The Global Services Enterprise Fund is used to account for transactions relating to course maintenance, training, patents, copyrights, trademarks, licenses, and other miscellaneous sales and services.

strategies and course fees may not be consistent with the Board's intent. Without separate accounting for restricted resources, there is an increased risk that restricted resources may be used for purposes inconsistent with the restrictions on the resources.

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**Recommendation:** The Board should prescribe principles and procedures to administer and control local school funds. Such principles and procedures should include separate accountability for restricted resources and Board approval of revenue-generating strategies and out-of-State student course fees.

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### **Finding No. 2: Travel Expenditures**

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Section 1002.37(2), Florida Statutes, specifies that the Board is a public agency and provides that Board members may be reimbursed for per diem and travel expenses pursuant to Section 112.061, Florida Statutes. Section 112.061, Florida Statutes, sets forth the standard travel reimbursement rates, procedures, and limitations applicable to public agency employees and contractors, including reimbursement at \$0.445 per mile for privately-owned vehicle travel, and travel-related meal allowances of \$6 for breakfast, \$11 for lunch, and \$19 for dinner, under certain conditions. Section 112.061(11), Florida Statutes, requires the use of travel vouchers, signed by the traveler and the traveler's supervisor, to document the basis for travel reimbursements.

For the 2012-13 fiscal year, the FLVS reported \$2.1 million of travel expenditures, including expenditures relating to FLVS's annual professional learning conference and other conference expenditures, net of related donations and other receipts. Our review disclosed that improvements could be made for monitoring and limiting travel-related expenditures as described below.

**Travel Reimbursement Rates.** Board Policy and Procedure Nos. TR001 and TR003 provide for reimbursement to employees for ordinary, necessary, and reasonable travel expenditures; however, travel reimbursement rates and related allowances for Board members and employees sometimes exceeded those established by Section 112.061, Florida Statutes. For example, during the 2012-13 fiscal year, FLVS reimbursements exceeded the statutory rates by \$2 for breakfast and \$1 for lunch, and the FLVS paid mileage reimbursements of \$0.555 per mile and \$0.565 per mile during calendar years 2012 and 2013, respectively. Further, Board members used a travel reimbursement form that specified a rate of \$0.50 per mile traveled that was inconsistent with both State law and Board policies and procedures.

For the 2013-14 fiscal year, the FLVS revised its policies and procedures to allow travel expenditure reimbursements for trips outside of Florida at rates of: \$12 for breakfast, \$19 for lunch, and \$36 for dinner, or \$108 per diem, whereas Section 112.061, Florida Statutes, allows \$6 for breakfast, \$11 for lunch, \$19 for dinner, or \$80 per diem. In addition, for the 2013-14 fiscal year, the Board policy and procedures provide a trip stipend for employees who are away from their home office for 11 hours or more for day travel at \$61 per day for travel within the State and \$104 per day for travel outside the State. While these amounts are reduced for any meals included in the agenda of a conference, training, or meeting, Section 112.061, Florida Statutes, does not authorize such travel stipends.

In response to our inquiry, FLVS's legal counsel indicated that Section 1002.37(2)(l), Florida Statutes, authorizes the Board to adopt rules, policies, and procedures consistent with State Board of Education rules related to various operations, including travel, granting the FLVS the flexibility of interpreting the applicability of particular laws and rules. FLVS's legal counsel also indicated that the FLVS should be treated as a school district pursuant to Section 112.061(14), Florida Statutes, which allows school districts and other specified entities to set their own travel reimbursement rates. However, Section 112.061(14), Florida Statutes, does not authorize the FLVS to set its own rates and neither Section 1002.37, Florida Statutes, or other law provides that the FLVS should be treated as a school district for purposes of applying the provisions of Section 112.061, Florida Statutes.

**Annual Conferences.** The FLVS holds an annual three-day professional learning conference attended by all FLVS employees. FLVS personnel indicated that the annual conferences provide professional development required for instructional certification renewal; training for new technology, teaching strategies, and learning initiatives; and other related benefits.

The September 2012 conference was attended by 1,840 FLVS employees and others, including vendors that provide educational materials and services, franchisee members, and sponsors. The conference costs, before consideration of donations through the FLVS Foundation and other receipts (i.e., conference registration fees, grant funds, and vendor exhibition fees), totaled \$1,037,000, including \$341,000 for meals, snacks, and beverages. After consideration of donations of \$202,000 and other receipts totaling \$28,000, the net cost of the conference was \$807,000.

The September 2013 conference was attended by 1,714 FLVS employees and others. The conference costs, before consideration of donations and other receipts, totaled \$757,000, including \$291,000 for meals, snacks, and beverages. After consideration of donations of \$91,000 and other receipts totaling \$34,000, the net cost of the conference was \$632,000.

A comparison of the meal rates charged for the September 2012 and 2013 conferences with related statutory meal rates (pursuant to Section 112.061, Florida Statutes) is shown below:

Food and Beverages	Conference Costs		Statutory Meal Rates
	September 2012	2013	
<b>Breakfast</b>			
Day 1	\$25	NA	\$6
Day 2	\$25	\$27	\$6
Day 3	\$25	\$25	\$6
<b>Lunch</b>			
Day 1	NA	\$22	\$11
Day 2	\$22	\$22	\$11
Day 3	\$38	\$22	\$11
<b>Dinner</b>			
Day 1	NA	NA	NA
Day 2	\$20	\$20	\$19
Day 3	NA	NA	NA
<b>Snack and Beverage</b>			
Pre-conference	NA	\$15	NA
Day 1	\$15	\$15	NA
Day 2	\$21	\$23	NA
<b>Service Charge</b>	22%	22%	NA
NA - Not Applicable			

Source: Hotel Invoices

FLVS personnel indicated that the food costs at the hotel for the annual conferences were appropriate based on a review of other venues and less than the national average of similar conference costs. For the September 2012 and September 2013 conferences, the FLVS paid \$341,000 and \$291,000, respectively, for meals, snacks, and beverages, which is \$257,000 and \$205,000, respectively, more than the related costs that would have been incurred had employees been reimbursed for such costs using the statutory meal rates. In response to our inquiry, FLVS personnel indicated that donations were used to defray conference meal costs. However, after considering donations for the September 2012 and September 2013 conferences, the FLVS paid \$27,835 and \$80,285, respectively, more than the

related costs that would have been incurred using the statutory meal rates. Additionally, had meal costs been limited to reimbursements at the statutory rates, the FLVS could have used donations to defray other conference costs.

For the September 2012 and September 2013 conferences, we noted that the FLVS paid \$34,036 and \$43,180 for hotel rooms for 267 and 340 FLVS employees, respectively, that lived within 50 miles of the conference location. While FLVS personnel indicated this was to allow employees to participate in evening activities, which included a networking event and an FLVS Foundation fundraiser, FLVS records did not evidence how this served an authorized public purpose. FLVS personnel also indicated that the FLVS contract with the hotel committed the FLVS to filling a certain number of rooms or paying the hotel a penalty for failing to fulfill that commitment, that 2013 staff reductions put the FLVS at risk of not fulfilling its commitment for the September 2013 conference, and employees living within 50 miles of the conference location were allowed to stay at the hotel to help fulfill this commitment and avoid the penalty. However, we noted the following:

- FLVS records did not evidence that FLVS personnel had determined that the cost of the rooms for the 340 employees was less than the penalty the FLVS would have paid had these employees not stayed at the hotel. Based on the number of rooms the FLVS committed for the September 2013 conference and the number of rooms the FLVS would have been short of its commitment had the 340 employees not stayed at the hotel, we determined that the FLVS would have had to pay a penalty of \$30,544, which is \$12,636 less than the \$43,180 cost of the rooms for the 340 employees.
- The FLVS was still unable to meet its room commitment and paid the hotel a penalty of \$3,556; however, the penalty was not calculated in accordance with the contract, resulting in a \$1,236 overpayment to the hotel.

**Other Matters.** We tested the reasonableness and propriety of FLVS travel expenditures by reviewing 25 travel expenditures (including travel expenditures related to the annual conference and travel expenditures not related to the annual conference) totaling \$11,780. Our tests disclosed:

- One payment of \$333 was to reimburse a keynote speaker at the 2012 annual conference and included meal allowances of \$185 for the speaker and the speaker's assistant for which the speaker's contract did not provide for reimbursement.
- FLVS records supporting a \$3,956 payment to reimburse the Connections Academy for travel expenditures did not initially identify the travelers and the purpose of the trip. Upon our request, FLVS personnel obtained additional documentation to support this payment.
- Contrary to Board Policy and Procedure No. TR003, which states that mileage incurred by independent contractors is not to be reimbursed, the FLVS paid vehicle mileage reimbursements, totaling \$762, to eight contractors for attending a meeting at FLVS headquarters. Additionally, the reimbursements were paid at \$0.555 per mile, rather than \$0.445 per mile, contrary to Section 112.061, Florida Statutes.
- Contrary to Section 112.061(11), Florida Statutes, an executive office manager signed one of the travel vouchers totaling \$266 for a Board member, and for two payments, totaling \$481, an executive assistant signed a manager's name to approve travel reimbursements.

Without proper monitoring procedures to control and limit travel expenditures, there is an increased risk that waste, fraud, or abuse may occur without timely detection.

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**Recommendation:** The Board should revise its travel policies and procedures to be consistent with Section 112.061, Florida Statutes. Such procedures should ensure that travel expenditures are reasonable and necessary and are properly approved before costs are incurred or payments made. Also, the FLVS, for future annual conferences, should strengthen its conference planning efforts for achieving total net meal costs within the statutory meal rates. In addition, the FLVS should ensure that reimbursements to operators, independent contractors, and the hotel are consistent with contract terms.

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**Finding No. 3: Electronic Funds Transfers**

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Board Policy and Procedure No. F003 provides that the Board may authorize the President/Chief Executive Officer or designee to enter into agreements with financial institutions for monetary transactions through electronic or other medium. Board Policy and Procedure No. F003 also requires the FLVS to establish and maintain adequate internal control measures as prescribed by Florida Statutes or State Board of Education rules. Florida Statutes that prescribe internal control measures related to electronic transactions include Section 1010.11, Florida Statutes, which requires governing bodies of certain educational entities to adopt written policies prescribing accounting and control procedures for electronic transactions, and Chapter 668, Florida Statutes, which addresses the use of electronic signatures for electronic transactions.

From July 2012 to September 2013, the FLVS made \$38 million in electronic funds transfers (EFTs) from the master bank account for transactions such as retirement payments, employee benefits, and vendor payments. FLVS's agreement with its bank identified bank accounts to be used for EFTs, personnel authorized to initiate and approve transactions, and transaction limits, and FLVS records included use of bank confirmation documents and a list of vendors approved to receive EFTs. However, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures. Also, one FLVS employee designated as the EFT system administrator could change EFT access privileges and prepare and record journal entries, without secondary approval to authorize the privilege changes and entries.

The FLVS had established informal instructions for the initiation, approval, and recording of EFTs and our tests did not disclose any EFTs for unauthorized purposes. However, the lack of specific guidance in the form of Board-approved written policies, including use of electronic signatures, and secondary approval of EFT access privilege changes and journal entries, increases the risk of misappropriation of funds without timely detection.

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**Recommendation:** The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. Such policies and procedures should ensure secondary approval of EFT access privilege changes and journal entries.

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**Finding No. 4: Policies and Procedures for Identifying and Reporting Suspected Illegal or Dishonest Behavior**

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Board Policy and Procedure No. ER007 provides guidance for reporting illegal or dishonest behavior to the employee relations (ER) department, and ER department personnel indicated that they investigate suspected illegal or dishonest behavior reported. However, the policy could be enhanced as it did not identify actions constituting illegal or dishonest behavior, and consequences for such behavior, and did not include incident-reporting procedures that allowed employees to anonymously report policy violations.

Appropriate policies for employee reporting of illegal or dishonest behavior are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. Also, such policies serve to establish the responsibilities for investigating potential incidents of illegal or dishonest behavior, taking appropriate action, reporting evidence of such action to the appropriate authorities, and avoiding damaging the reputations of persons suspected of such behavior but subsequently found innocent. In addition, allowing anonymous persons to report policy violations may help identify any such violations. In the absence of such policies, the risk increases that known or suspected illegal or dishonest behavior may be identified but not reported to the appropriate authority.

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**Recommendation:** The Board should enhance its policies and procedures to identify actions constituting illegal or dishonest behavior, and consequences of such behavior, and establish incident reporting procedures that allow employees to anonymously report policy violations.

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<b>Personnel Administration and Compensation</b>
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**Finding No. 5: Hiring Practices**

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Effective instructional personnel employment procedures ensure verification of employment history, educational experience, teaching certification, background screenings, and other performance considerations prior to employment, and the maintenance of personnel records to evidence such verifications. Also, such procedures should include use of the Florida Department of Education (FDOE) Employment Screening Tools, available on FDOE's Web site, to determine whether applicants for instructional positions had valid teacher certifications and whether such applicants had been subjected to prior disciplinary actions related to their licenses. In addition, Section 1002.37(2)(f)4., Florida Statutes, provides that FLVS employees in an academic, administrative, or instructional capacity shall be entitled to a contract.

FLVS's SOP Manual prescribes requirements for reviewing performance evaluations and letters of recommendation and for completing employment verifications for applicants. For hiring instructional personnel, the SOP Manual permits letters of recommendation within the last two years on official letterhead in lieu of performance evaluations. If an applicant for an instructional position does not provide the required documentation, such as letters of recommendation or recent performance evaluations, FLVS personnel are required to contact the applicant's previous employer to verify the applicant's employment history.

From July 2012 to August 2013, the FLVS hired 1,271 instructional personnel, and our test of 13 of these instructional personnel disclosed:

- For 2 of the 13 instructional personnel tested, FLVS records evidenced recent evaluations or letters of recommendation on file to support the basis upon which the FLVS employed the personnel. However, for 11 personnel tested, who were previously employed, FLVS personnel did not obtain recent performance evaluations, letters of recommendation, or perform employment history verifications with the employees' previous employers. FLVS personnel indicated that these instances likely occurred because they obtain the most recent documents available at the time an application is completed, but do not follow up on applicant performance between the application and hire dates. For example, one of the instructional personnel tested submitted an application on May 4, 2011, supported by a performance evaluation dated May 20, 2003; however, the FLVS hired the individual on July 9, 2012, or 14 months later, and FLVS personnel did not contact the individual's previous employer to confirm the individual's employment activity during the 14 months.
- FLVS personnel used FDOE's Employment Screening Tools to confirm the instructional personnel's education and certification; however, FLVS personnel did not use FDOE's Web site to determine whether instructional personnel had been subjected to prior disciplinary actions related to their licenses. While we determined that the licenses of instructional personnel tested did not have prior disciplinary actions, our procedures do not substitute for management's responsibility to establish adequate controls over screening applicants for instructional positions.

Absent timely verification of employment history and educational and disciplinary backgrounds, there is an increased risk that the FLVS may hire instructional personnel that are not qualified or suitable for their positions.

From July 2012 to August 2013, the FLVS hired 152 noninstructional personnel, and we included 7 of these personnel in our test. Noninstructional personnel are required to have a certain level of education. For example, the

FLVS requires a Bachelor's degree in Computer Science, Information Systems, or Computer Engineering for many of its information technology positions. However, FLVS personnel did not, of record, verify that the 7 applicants for the noninstructional positions in our test had attained the level of education required for their positions. In response to our inquiry, FLVS personnel indicated that the only time they verified the level of education for the 152 noninstructional personnel hired during the period tested was when the applicant negotiated a starting salary based on a specific level of educational experience. However, absent verification of the level of education for all noninstructional personnel, there is an increased risk that personnel may be hired who do not meet the level of education required for their positions or that they may be paid for levels of education that they had not attained.

In addition, our review of personnel records for 26 instructional personnel disclosed 25 employees for whom signed employment contracts were not obtained prior to FLVS employment. While signed contracts were obtained for 4 of the employees within a week of employment, signed contracts for 19 employees were obtained from 14 to 261 days after their contract start dates and 2 employees terminated employment without a signed contract. Timely executed employment contracts are necessary to convey each party's responsibilities and provide an understanding of the employment terms.

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**Recommendation:** The FLVS should enhance its controls to ensure proper verification of employment history and educational and disciplinary backgrounds before applicants are hired and use of timely executed contracts as required.

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#### **Finding No. 6: Employee Compensation**

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It is important that the Board adopt salary schedules to establish compensation for employees. Board Policy and Procedure No. C002 provides that chief officers, such as project managers or coordinators, may recommend FLVS personnel for additional assignments and salary supplements up to \$20,000 each, as authorized by the President/Chief Executive Officer for additional assignment salary supplements and by the Human Resources Department.

For the 2012-13 fiscal year, the Board adopted salary schedules for instructional and noninstructional personnel. For 58 employees in administrative positions with pay grades at or above the director level, FLVS management (i.e., the departmental chief officer, with the approval of the departmental vice president, the Human Resources Director, and the President/Chief Executive Officer) negotiated salaries of these employees without identifying the positions and related salaries on the Board-approved salary schedules. Without including the above-noted administrative positions and related salaries on the Board-approved salary schedules, there is an increased risk that the FLVS may pay salaries inconsistent with the Board's intent.

For the 2012-13 fiscal year, the FLVS paid salary supplements totaling \$451,000 to 223 employees for additional assignments. Our test of additional assignment salary supplement payments to 15 employees totaling \$26,515 disclosed that project managers or coordinators authorized additional assignments for these employees and the Human Resources Department authorized these employees to receive the salary supplement payments. However, as none of these salary supplement payments tested exceed \$20,000, they were not approved by the Board, and FLVS records did not evidence that the President/Chief Executive Officer authorized any of these salary supplement payments, contrary to Board policy.

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**Recommendation:** The FLVS should enhance its procedures to ensure administrative salaries are authorized by Board-adopted salary schedules and salary supplements are appropriately authorized by the President/Chief Executive Officer.

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**Finding No. 7: Severance Pay**

As a public agency, the FLVS is subject to the provisions of Section 215.425, Florida Statutes. Pursuant to Section 215.425(4)(a), Florida Statutes, an employment agreement entered into by the FLVS on or after July 1, 2011, that contains a provision for severance pay must include a provision in the employment agreement that precludes severance pay from exceeding 20 weeks of compensation. Section 215.425(4)(b), Florida Statutes, provides that, if severance pay is not provided for in an employment agreement and the pay represents the settlement of an employment dispute, such pay may not exceed an amount greater than 6 weeks of compensation. This section further provides that an employment agreement with a severance pay provision must prohibit severance pay if the employee was fired for misconduct as defined in Section 443.036(30), Florida Statutes.

From July 2012 to September 2013, the FLVS made severance payments totaling \$388,817 to 211 employees. Our test of severance payments to 20 employees disclosed 2 employees who received severance pay totaling \$4,017 that did not appear to be authorized by Section 215.425, Florida Statutes. These employees’ employment agreements provided for employment terminations without rights to future compensation or benefits and did not include severance pay provisions, and the payments did not represent employee dispute settlements. In addition, contrary to Section 215.425(4), Florida Statutes, none of the employment contracts tested contained a clause prohibiting severance pay when the employee was fired for misconduct. Absent such contractual provisions, there is an increased risk that terminating employees may receive severance payments that are contrary to Section 215.425, Florida Statutes.

**Recommendation:** The FLVS should ensure that future severance payments comply with Section 215.425(4), Florida Statutes, and that all employment agreements contain the statutorily required provisions.

**Procurement Practices**

**Finding No. 8: Contractual Services**

The FLVS routinely enters into contracts for goods or services. As a matter of good business practice, to the extent practical, a competitive selection process should be used to procure goods and services. In addition, contractual service arrangements should be evidenced by written contracts including all terms and conditions of the contractual arrangement to protect the interests of both parties, define the services to be performed, and provide a basis for payment. Our review disclosed that the FLVS’s administration of contractual services could be improved as discussed below.

**Competitive Procurement.** Competitive procurement procedures are intended to provide for the identification and selection of contractors resulting in procurement of goods and services that are fair, competitive, and reasonable. Effective procurement procedures serve to increase public confidence in the procurement process and avoid the appearance of favoritism in the selection of contractors. Board Policy and Procedure No. F011, as well as the Purchasing Division’s Purchasing Guidelines and the SOP Manual, establish a process for planning and competitively selecting contractors for goods and services. The Board policy, purchasing guidelines, and SOP Manual include the types of solicitations to be used, depending on the items or services needed and expected costs. For requests for proposals (RFPs), the SOP Manual requires use of an evaluation committee to evaluate vendor responses. Among other requirements, each evaluation committee member is to read all vendor responses prior to evaluation committee meeting(s), attend all committee meeting(s), discuss and rank vendor proposals, and make a recommendation for award. The SOP Manual requires the evaluation committee members to discuss all vendor responses, and each

evaluation committee member must score the vendors individually. Additionally, the Purchasing Division sends each individual member an *Evaluation Committee Rules* form to sign as acknowledgment of the committee member's understanding of the requirements. The form specifies that "each member will conduct, and complete, an individual evaluation of each proposal."

From July 2012 to September 2013, the FLVS issued 12 RFPs and two Invitations to Bid (ITBs) for goods and services ranging from \$17,735 to \$1.6 million for the first year of the contracts. Our review of three RFPs for call center services, records management services, and a learning game, and two ITBs for computer peripherals and headsets, disclosed that all of the individual score sheets for the RFP for call center services were scored identically. All five committee members scored 13 vendors the same in each of seven categories, indicating that the evaluations were determined as a whole, rather than individually, contrary to the SOP Manual and *Evaluation Committee Rules*. We then expanded testing for this criterion to six additional RFPs during the period from July 2012 through September 2013 and noted that the individual score sheets for the additional six RFPs reviewed were also all identical among the evaluation committee members.

FLVS personnel indicated that the evaluation committee can make an initial decision to evaluate individually or as a committee as a whole. However, evaluating vendors as a whole by committee, rather than individually as a committee member, could result in the undue influence of committee members to assess certain vendors differently than their own preferences, negating the benefit of independent rankings contemplated in the SOP Manual and *Evaluation Committee Rules*.

For the 2012-13 fiscal year, contractual goods and services expenditures totaled approximately \$50 million. Our test of ten contractual services expenditures totaling approximately \$17 million disclosed that, since August 2009, the FLVS has contracted for advisory consulting services relating to Federal and State legislation and paid \$8,333 monthly for such services for the 2012-13 fiscal year; however, the services were not obtained through a competitive selection process, contrary to the SOP Manual. FLVS personnel indicated that the services were not competitively procured because there was not a legal requirement to do so and the amount was within the President/Chief Executive Officer's purchasing authority. However, while the purchasing guidelines indicate that the President/Chief Executive Officer is authorized to enter into contracts for less than \$100,000 without Board approval, neither the Board policy, purchasing guidelines, or the SOP Manual include provisions that exempt advisory consulting services from a competitive selection process.

Without use of proper competitive selection procedures, there is an increased risk that goods or services may not be acquired at the lowest cost consistent with desired quality or that fraud or abuse may occur without timely detection.

**Conflicts of Interest Policies and Procedures.** Board Policy and Procedure No. PS001 sets forth certain business conduct standards to help determine what would constitute employee conflicts of interest, and prohibits Board members and FLVS employees from receiving gifts and entertainment from vendors and from representing the FLVS in political activities. For the 2012-13 fiscal year, this policy and procedure also prohibited the FLVS from doing business with any supplier who hired a former FLVS employee within a year after the former employee terminated employment with the FLVS if the former employee could significantly increase the supplier's competitive position. However, this provision was deleted from Board Policy and Procedure No. PS001 for the 2013-14 fiscal year. The deletion of this provision could decrease public confidence that the FLVS procurement process is fair, competitive, and reasonable.

While the Board policy and procedure specifies certain conflicts of interest, it did not address potential conflicts of interest that could relate to employee family members or Board members. For example, Section 112.313, Florida

Statutes, establishes various standards of conduct for public officers and employees, such as prohibiting purchasing agents or public officers from purchasing goods or services for the agency from any business entity of which the purchasing agents' or public officers' spouse or child is a proprietor and has a material interest. This statute also prohibits employees or public officers having or holding any employment or contractual relationship with any business entity or any agency which is doing business with the agency of which he or she is an employee or officer. Although our procedures did not disclose any conflicts of interest, policies and procedures prohibiting such relationships would reduce the risk of conflicts of interest occurring with FLVS vendors and increase public confidence in the procurement process.

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**Recommendation:** The FLVS should enhance its administration of contractual services to ensure that contracts for goods or services are competitively selected in accordance with the SOP Manual. In addition, the Board should revise Board Policy and Procedure No. PS001 to prohibit relationships such as those prohibited by Section 112.313, Florida Statutes.

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### Finding No. 9: Purchasing Cards

Board Policy and Procedure No. F011 authorizes the President/Chief Executive Officer to administer a P-Card program and establish procedures. The FLVS Purchasing Card (P-card) Program gives employees the convenience of purchasing items without using the standard purchase order process. P-cards are subject to the rules and regulations for regular FLVS purchases, and the FLVS developed the *Florida Virtual School P-card Handbook* (Handbook) to provide users with additional guidance on how to properly use P-cards. According to the Handbook, requests for P-cards are to be submitted by a manager to the site administrator, and FLVS personnel advised us that employees are required to complete an *FLVS Cardholder Acceptance Form*, acknowledging their responsibilities regarding P-card use. FLVS personnel indicated that P-card credit limits are routinely monitored and adjusted, as necessary, to ensure limits are consistent with the duties of the P-card users.

The FLVS had issued 186 P-cards as of September 23, 2013, and, from July 2012 through July 2013, P-card charges for purchased goods and services totaled \$4.3 million. Our tests of 20 P-card expenditures totaling \$303,712 made by 15 employees disclosed that controls relating to the issuance, monitoring, and usage of P-cards needed improvement, as follows:

- The 15 employees tested signed the *FLVS Cardholder Acceptance Forms*, acknowledging their responsibilities regarding P-card use; however, 7 of the 15 employees signed the forms from 40 to 434 days after the employee initially used the P-card. Also, for 14 of the 15 employees, FLVS records did not evidence a manager's request and approval for the P-cards issued, contrary to the Handbook.
- FLVS records included a list of 26 missing P-cards, identifying the employee responsible for the cards and the card numbers. However, FLVS records did not evidence whether the cards were lost or stolen, the dates the cards were determined to be missing, and the dates the P-card service provider was notified of the missing cards. As such, FLVS records did not evidence that the cards were timely canceled.

While our tests did not disclose any errors, fraud, or inappropriate use of P-cards, without timely acceptance and approval of P-card responsibilities, documentation of P-card charges, and documented timely notification of the service provider of missing cards, there is an increased risk of P-card misuse.

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**Recommendation:** The FLVS should strengthen P-card controls to ensure timely acceptance and approval of cards issued and documented timely notification of the service provider of missing cards.

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<b>Franchises</b>
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**Finding No. 10: Monitoring of Compliance with Franchise Agreements**

Pursuant to Section 1002.37(2)(i), Florida Statutes, the Board may enter into franchise agreements with school districts and may establish the terms and conditions governing such agreements. This statute also requires that the Board establish criteria defining the elements of an approved franchise and performance and accountability measures. In addition, the statute requires the Board to report the performance of each school district franchise to the FDOE.

On April 10, 2012, the Board approved the 2012-13 fiscal year FLVS Franchise Agreement, which defined the terms and conditions to be used in the franchise operations. Franchise responsibilities in the agreements require that teachers hired for the virtual school program complete an FLVS teacher memorandum that requires teachers to comply with certain FLVS requirements, including academic integrity policies and procedures, and that teachers sign the memorandum within 10 days of employment to evidence their concurrence to abide by FLVS policies.

The Board entered into franchise agreements with 28 school districts and two consortiums that represented an additional 29 school districts. The Board had not established written policies and procedures for monitoring compliance with franchise agreements. Our review of five franchise agreements (4 school districts and one consortium) for the 2012-13 fiscal year disclosed that the FLVS needed to improve its monitoring of compliance with franchise agreements, as follows:

- For two of the five franchise agreements tested, FLVS records did not evidence that teachers<sup>2</sup> at the two school districts had signed the required teacher memoranda. Without such memoranda, FLVS records did not evidence that the teachers were aware of, and agreed to comply with, FLVS requirements.
- For all five franchises tested, FLVS records did not evidence FLVS personnel efforts to monitor the verification of teacher certificates for teachers working for the four school districts and consortium.
- One of the school districts paid the FLVS \$50 per student for a creative photography course with 97 enrolled students that, based on the franchise agreement, should have been charged at \$90 per student, resulting in an underpayment of \$3,880. The error occurred because FLVS personnel incorrectly billed the franchise, which FLVS personnel indicated would be corrected through an additional invoice to the school district.

Also, the Board had not established performance and accountability measures relating to student access to franchises, student-to-teacher ratios at franchise schools, or student achievement in franchise courses. FLVS personnel acknowledged the oversights and indicated that they had worked closely with the franchises concerning performance, outcomes, and overall satisfaction. However, without appropriate monitoring of compliance with the terms and conditions of franchise agreements and establishing required performance and accountability measures, there is an increased risk that franchises may not comply with the agreements and related Board requirements.

In addition, the FLVS did not submit reports on the results of the performance of each school district and consortium franchise to the FDOE for the 2009-10, 2010-11, and 2011-12 fiscal years. Subsequent to our inquiry, the FLVS submitted a report for the 2012-13 fiscal year to the FDOE on December 4, 2013. Failure to submit the required performance reports to the FDOE limits FDOE's ability to appropriately monitor the performance of each school district and consortium franchise.

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<sup>2</sup> FLVS records did not evidence the number of teachers during the 2012-13 fiscal year; however, as of November 2013, there were a total of 60 teachers for the two school districts according to reports submitted by the school districts to the FLVS.

**Recommendation:** The Board should establish written policies and procedures that provide for appropriate monitoring of compliance with franchise agreements. The Board should also establish the required performance and accountability measures and ensure that the required performance reports are submitted to the FDOE as required by law.

### Student Eligibility, Enrollment, and Performance

#### Finding No. 11: Student Eligibility

Section 1002.37(8)(a), Florida Statutes, requires that FLVS students receiving part-time instruction in kindergarten through fifth grade meet certain eligibility criteria listed in Section 1002.455(2), Florida Statutes, including, but not limited to, attending a Florida public school the prior school year, being a dependent child of a military service member, or being eligible to enter kindergarten or first grade.

During the 2012-13 fiscal year, the FLVS had 147 part-time kindergarten through fifth grade students. Our test of FLVS records for 8 of these students disclosed that FLVS records did not evidence that 3 students were eligible for FLVS services. FLVS personnel indicated that they typically relied on the respective school district's procedures to confirm student eligibility and to maintain evidence of this eligibility. However, without the FLVS's monitoring of the school districts' verification of student eligibility, there is an increased risk that FLVS services may be provided to students who do not meet the eligibility requirements provided in law.

**Recommendation:** The FLVS should enhance its procedures to ensure students that receive part-time FLVS services are eligible for such services and that records are maintained to evidence student eligibility. The FLVS should also verify the eligibility of all current part-time kindergarten through fifth grade students and take appropriate action for any students determined to be ineligible.

#### Finding No. 12: Enrollment Forecasting

Section 1002.37(2)(j), Florida Statutes, requires that the Board submit to the FDOE forecasted and actual enrollments and credit completions in accordance with procedures established by the State Board of Education. For the 2012-13 fiscal year, FLVS personnel submitted forecast reports in December 2011, February 2012, November 2012, and March 2013, and FLVS records evidenced reported actual enrollment and credit completions.

FLVS records included a detailed spreadsheet by program and grade that contained information that supported forecasted enrollments reported on the November 2012 and March 2013 reports; however, FLVS records were not available to support forecasted enrollments reported on the December 2011 and February 2012 reports. Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that FLVS reported data be supported by FLVS records.

**Recommendation:** The FLVS should enhance its procedures to ensure that forecasted enrollments reported to the FDOE are supported by FLVS records.

#### Finding No. 13: Performance Measures and Standards and Accountability System

Section 1002.37(1), Florida Statutes, provides that FLVS's mission is to provide students with technology-based educational opportunities to gain the knowledge and skills necessary to succeed. Section 1002.37(1), Florida Statutes,

also requires the Board to identify appropriate performance measures and standards based on student achievement that reflect FLVS’s statutory mission and priorities and to implement an accountability system that includes assessment of the FLVS’s effectiveness and efficiency in providing quality services that encourage high student achievement, seamless articulation, and maximum access.

The FLVS had developed student achievement performance measures and standards through its Balanced Score Card system, which includes assessments for end-of-course exam performance and Florida Comprehensive Assessment Test performance, and the expected level of performance. The FLVS had also implemented an accountability system that included a scorecard system, a teacher evaluation system, observations, and reports to ensure maximum access and quality. However, the Board had not approved the established performance measures and standards or the accountability system, contrary to Section 1002.37(1), Florida Statutes. Without such approval, there is an increased risk that the performance measures and standards and accountability system will not be consistent with the Board’s expectations.

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**Recommendation:** The Board should comply with Section 1002.37(1), Florida Statutes, by adopting the required performance measures and standards and accountability system.

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<b>Information Technology</b>
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**Finding No. 14: Access Privileges**

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Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties.

The FLVS had not established procedures requiring a periodic review of the appropriateness of employees’ IT access privileges. Our review disclosed that the payroll manager and four payroll department employees had the ability to update employee pay rates, although these privileges should generally be limited to human resources department employees. These access privileges gave the payroll employees the ability to perform incompatible duties. Allowing employees to have such incompatible access abilities increases the risk of unauthorized modification to FLVS data. Without a periodic review of all employees’ access, inappropriate access privileges may not be timely detected and addressed by the FLVS.

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**Recommendation:** The FLVS should periodically review the appropriateness of all employees’ application access privileges and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges enforce an appropriate separation of incompatible duties and do not exceed what is necessary for assigned job duties.

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**Finding No. 15: Disaster Recovery Planning**

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The availability and reliability of the FLVS computing infrastructure is critical to its successful operations. Accordingly, it is essential that the FLVS maintains effective disaster recovery plans to help minimize data and asset loss in the event of a major hardware failure, system failure, or data center outage. A disaster recovery plan should

identify the critical applications to be restored; identify the backup and storage of critical data files; and provide a step-by-step plan for recovery, including identification of personnel responsible for recovery activities. In addition, the plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The FLVS had not developed and tested a written disaster recovery plan for the restoration of critical FLVS processing or recovery of the corresponding data files, including school and operational data. These conditions may limit the ability of the FLVS to efficiently and effectively continue operations with minimal loss of data or assets in the event of a processing disruption. In response to our inquiry, the FLVS management indicated that steps had already been initiated to develop a disaster recovery plan and they intend to have the plan developed by June 30, 2014, and tested by December 31, 2014.

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**Recommendation:** The FLVS should continue to develop a written disaster recovery plan that promotes efficient and effective continuity of operations. Upon completion, the FLVS should conduct periodic testing of the plan to ensure its ongoing effectiveness.

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**Finding No. 16: Security Controls – User Authentication**

Security controls are intended to protect the confidentiality, integrity, and availability of FLVS data and IT resources. Our audit disclosed certain FLVS IT security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising FLVS data and IT resources. However, we have notified appropriate FLVS management of the specific issues. Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of FLVS data and IT resources may be compromised.

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**Recommendation:** The FLVS should improve security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of FLVS data and IT resources.

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**RECOMMENDATION FOR THE LEGISLATURE**

Section 1002.37, Florida Statutes, in certain instances, refers to the Board having to take actions in accordance with, or consistent with, State Board of Education (SBE) rules. For example:

- Section 1002.37(2)(f), Florida Statutes, states “In accordance with law and rules of the State Board of Education, the board of trustees shall administer and maintain personnel programs for all employees of the board of trustees and the Florida Virtual School.”
- Section 1002.37(2), Florida Statutes, states “The board of trustees is specifically authorized to adopt rules, policies, and procedures, consistent with law and rules of the State Board of Education related to governance, personnel, budget and finance, administration, programs, curriculum and instruction, travel and purchasing, technology, students, contracts and grants, and property as necessary for optimal, efficient operation of the Florida Virtual School.”

Section 1002.37, Florida Statutes, is not clear as to which SBE rules are applicable to the FLVS. Further, the SBE has not promulgated rules specific to the FLVS, nor does any law require the SBE to do so, and no existing SBE rules specify that the rules are applicable to the FLVS.

The Florida Legislature established the FLVS as a unique virtual education entity, and it is not evident from current law that the Legislature intended the FLVS to be subject to SBE rules that school districts are subject to, nor is it evident whether the Legislature intended for the SBE to adopt rules specific to the FLVS.

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**Recommendation:** The Legislature should consider revising Section 1002.37, Florida Statutes, to clarify the Legislature's intent for the SBE to adopt rules specific to the FLVS.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Section 11.45(1)(g), Florida Statutes, defines an operational audit as an audit whose purpose is to evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.

We conducted this operational audit from August 2013 to November 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit focused on the FLVS's administration of responsibilities relating to personnel; procurement and contracting; revenue production; school funds, including internal funds; student enrollment records; franchise agreements; information technology utilization, assets, and security; performance measures and standards; and accountability during the period July 1, 2012, through June 30, 2013, and selected transactions through October 31, 2013. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of financial records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities or functions, and IT systems and controls included within the scope of the audit, deficiencies in management's internal controls and IT controls; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities or functions, and IT systems and controls included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program activities and functions; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Interviewed the FLVS personnel.
- Obtained an understanding of the FLVS organizational structure.
- Determined whether the Board had established written policies and procedures related to the identification and reporting of suspected illegal or dishonest behavior.
- Reviewed transactions for related-party relationships, including the review of selected contracts for terms contrary to the concept of an arm's length transaction.
- Tested FLVS records to determine the adequacy of controls relating to student eligibility and compliance with eligibility requirements stated in Section 1002.37(8)(a), Florida Statutes, and to determine whether certain students met the eligibility criteria in Section 1002.455(2), Florida Statutes.
- Tested to determine whether the FLVS had established and distributed student enrollment procedures to school districts and high schools in accordance with Section 1002.37(2)(h), Florida Statutes.
- Tested FLVS records to determine whether the FLVS complied with Statewide assessment requirements in accordance with Section 1002.37(9), Florida Statutes.
- Reviewed and evaluated the adequacy of controls related to school funds and revenue production; determined whether the Board had pursued revenue generation in accordance with Section 1002.37(2)(c), Florida Statutes; determined whether global student fees were approved by the Board and whether only FLVS Global students were required to pay tuition; and tested FLVS records to determine whether revenues were properly assessed, reconciled, recorded, and timely deposited.
- Determined whether revenues realized from patents, copyrights, trademarks, or licenses were used in accordance with Section 1002.37(2)(c), Florida Statutes.
- Reviewed and evaluated the adequacy of controls related to personnel administration. Specifically, tested personnel administration, including hiring practices, employment contracts, background screenings, teacher certifications and evaluations, personnel loan program, participation in the Florida Retirement System, and remote employee monitoring, to determine whether the FLVS was in compliance with applicable laws, rules, regulations, and other guidelines, including Board-approved policies and procedures.
- Reviewed and evaluated the adequacy of controls related to personnel compensation. Specifically, tested bonuses, salary supplements, severance pay, terminal pay, encashment, and the President's compensation to determine whether the compensation was properly authorized, approved, and supported and in compliance

with applicable laws, rules, regulations, and other guidelines, including Board-approved policies and procedures.

- Reviewed and evaluated the adequacy of controls related to expenditures, procurements, and contracts. Specifically, tested transactions regarding travel and related travel expenditures, competitive bids and requests for proposals, e-payables, contractual services, purchasing card transactions, and air card usage to determine whether expenditures, procurements, and contracts were properly authorized, approved, and supported and in compliance with applicable laws, rules, regulations, and other guidelines, including Board-approved policies and procedures.
- Determined whether the Board had established a comprehensive electronic funds transfers (EFT) policy, reviewed and evaluated the adequacy of EFT controls, and tested the propriety of EFTs.
- Determined whether the Board had established a comprehensive investment policy in compliance with Section 218.415, Florida Statutes.
- Reviewed and evaluated the adequacy of controls related to franchises. Specifically, determined whether Board-approved policies established required criteria to define the elements of an approved franchise in accordance with Section 1002.37(2)(i), Florida Statutes; tested to determine whether reasonable provisions were included in the franchise agreements; determined whether the Board had established performance and accountability measures for the franchises and whether the FLVS monitored franchisee compliance with the measures; determined whether franchisee payments were properly recorded in FLVS accounting records; and determined whether the FLVS reported the performance of each franchise to the Commissioner of Education in compliance with Section 1002.37(2)(i), Florida Statutes.
- Reviewed and evaluated the adequacy of controls related to performance measures and standards and accountability. Determined whether the Board identified appropriate performance measures and standards based on student achievement in accordance with Section 1002.37(1), Florida Statutes, and determined whether Board-approved policies and procedures required the implementation of an accountability system for the FLVS to determine the effectiveness and efficiency of the FLVS in providing quality services that encourage high student achievement, seamless articulation, and maximum access.
- Determined whether the FLVS submitted enrollment and credit completion information to the State Board of Education in accordance with Section 1002.37(2)(j), Florida Statutes.
- Determined whether the FLVS submitted to the Governor, Legislature, Commissioner of Education, and the State Board of Education an annual report in compliance with Section 1002.37(6), Florida Statutes, including a copy of the annual financial audit, operations and accomplishments of the FLVS and FLVS Global, the marketing and operational plan for the FLVS and FLVS Global, and recommendations regarding the unit cost of providing services to students and regarding accountability in assessing service effectiveness.
- Obtained an understanding of the applications, platforms, and IT environments used to support the FLVS.
- Observed and evaluated the adequacy of controls for continuity of operations used by the FLVS including provisions for disaster recovery, data backup processes, performance monitoring, and capacity planning.
- Observed and evaluated the adequacy of the FLVS processes for the performance and periodic updating of background screenings for the FLVS IT staff. Specifically, we tested ten members of the FLVS IT staff to determine if they had been appropriately background checked.
- Observed and evaluated the adequacy of controls over the FLVS programming accounts to ensure that the principles of legitimate use, least privilege, and separation of duties were followed. Specifically, we tested the access for 21 users, who potentially had the ability to move programs changes into the production environment, for appropriateness. We also tested two administrator roles on three databases Virtual School Administrator (VSA), Admissions and Registration (A&R), and Master Admissions and Registration System (MARS) to determine that the role had only been assigned to appropriate users.
- Observed and evaluated whether administrative access to critical servers was appropriately limited. Specifically, we tested selected administrative access to nine servers (one web, application, and database server

each for VSA, A&R, and MARS) as well as to the overall domain to determine if the access had only been assigned to appropriate users.

- Observed and evaluated the adequacy of user identification and authentication controls used by the FLVS.
- Obtained an understanding of the data transfer mechanisms used between the FLVS and Florida school districts and the Florida Department of Education.
- Observed and evaluated the adequacy of controls used to identify and segregate the FLVS and the FLVS Global students for billing and reporting purposes.
- Performed various other auditing procedures as necessary to accomplish the objectives of the audit.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

**AUTHORITY**

Section 1002.37(11), Florida Statutes, required that the Auditor General conduct an operational audit of the Florida Virtual School, including the Florida Virtual School Global, and submit a final report to the President of the Senate and the Speaker of the House no later than January 31, 2014.

Pursuant to the provisions of Section 11.45, Florida Statutes, and Section 1002.37(11), Florida Statutes, I have directed that this report be prepared to present the results of our audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT’S RESPONSE**

In a response letter dated January 21, 2014, the President/Chief Executive Officer provided responses to our audit findings and recommendations. The President/Chief Executive Officer’s response is included as EXHIBIT A.

**EXHIBIT A**  
**MANAGEMENT'S RESPONSE**



Julie Young,  
*President and CEO*

Stevie Johns,  
*Board Clerk*

**Board of Trustees**

Mr. Michael Olenick, *Board Chairman*  
Lady Dhyana Ziegler, Ph.D., *Vice Chairman*  
Ms. Marva Johnson  
Ms. Tammie Nemecek  
Mr. Brian Cunningham  
Ms. Linda Pellegrini

January 21, 2014

Mr. David W. Martin, CPA  
Auditor General  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

RE: Audit – Florida Virtual School (FLVS) Operational Audit – Performed Pursuant to Section 1002.37(11), Florida Statutes

Dear Mr. Martin:

Included below are my responses to the preliminary and tentative findings and recommendations of the operational audit of Florida Virtual School performed pursuant to Section 1002.37(11), Florida Statutes. We appreciate the recommendations and advice of the audit staff and are committed to improving the effectiveness and efficiency of our processes.

**Finding No. 1: School Funding Sources**

Response:

The FLVS Board has always provided perspective, vision, and governance as it relates to our budget, revenues, and strategic plans. In response to the auditor's concern, the FLVS Board approved a comprehensive revenue policy at its December 20, 2013, Board Meeting.

FLVS has been accounting for its funds in accordance with the Department of Education accounting procedures prescribed in its accounting manual "Financial and Program Cost Accounting for Florida Schools" and generally provides a separate accounting for its restricted funds. The auditor's concern is related specifically to revenues for patents, copyrights, trademarks, and licenses revenue. These funds are segregated from the Board's operating funds and are separately accounted for in the Global Services Enterprise Fund. Furthermore, the profits from this fund are periodically transferred to the Development Fund for the purposes specified in statute. However, since there are other minor revenue sources included in the Global Services Fund, the auditors are essentially recommending an additional earmarking of these funds, which is currently being implemented.

In response to the auditor's concern related to business and operational plans, the Board at its December 20, 2013, Board Meeting approved a policy providing for official Board approval of these plans for each year. Though business strategies have not been officially presented to the Board for its approval, these strategies have been provided to the Board on an annual basis for input, review, and consensus.

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**



**Finding No. 2: Travel Expenditures**

Response:

As noted by the auditor, Section 112.061 (14) specifically provides that school districts may set travel reimbursement rates, which may be different than the set rates provided for in Section 112.061, Florida Statutes. Section 1002.37(2), Florida Statute specifically states that "The (FLVS) board of trustees is *specifically* authorized to adopt rules, policies, and procedures, consistent with *law* and rules of the State Board of Education (SBE) related to...*travel and purchasing, ...*" Since it was generally perceived that many laws specifically related to school districts would also apply to FLVS, it is not inconsistent to believe that Section 112.061 (14) would also apply to FLVS. The auditor also recommends that "The Legislature should consider revising Section 1002.37, Florida Statutes, to clarify the Legislature's intent for the SBE to adopt rules specific to FLVS."

To address the auditor's concern regarding contractor reimbursement procedures, controls have been strengthened to help ensure that all reimbursements are in accordance with FLVS policies and State law. The current FLVS travel procedures for employee travel reimbursements ensures that travel expenditures are reasonable and necessary and are properly approved before costs are incurred or payments made.

The FLVS Professional Learning Conference serves as the annual all staff meeting for the organization. Due to the reduction in enrollment and the resultant staffing reduction, necessitated by the change in the FLVS funding model for 2013, FLVS incurred a hotel penalty due to the reduced occupancy. The authorization of 340 employees to stay at the hotel in order to reduce the hotel penalty for not filling a certain number of rooms resulted in a net cost of \$12,636 or \$37 per employee, which is a cost effective use of funds. By affording the employees the opportunity to stay at the hotel they were able to take advantage of and attend early morning and evening meetings and professional development activities. Additionally, as a further cost saving measure, no employees were reimbursed for mileage if they lived within 50 miles of the hotel, resulting in a savings of approximately \$25,000 to FLVS.

In accordance with the auditor's recommendations for future conferences, FLVS will ensure that total net meal costs are within the authorized rates. Notwithstanding the auditor's concerns regarding the various conference costs, it must be noted that the overall conference costs (including all meals, mileage reimbursements, room costs, keynote speakers and etc.) on a per FLVS employee basis for both the 2012 conference and the 2013 conference (\$387 and \$301 per employee, respectively) were extremely cost effective compared to professional development trainings. The total annual cost including food expenditures was offset each year by sponsorships, additional revenue from registration fees for non FLVS employees and free amenities from the hotel. Lastly, it is also important to note that the cost of the conference is less than .005 of our overall budget; less than 1 percent.

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**



**Finding No. 3: Electronic Funds Transfers**

Response:

Based upon the auditor's recommendation, controls have been strengthened to require secondary approval for all EFT access privilege changes and journal entries. Written procedures including these new requirements have been developed and implemented. As noted by the auditor, FLVS had substantial control procedures in place for its EFT transfers as required by law, including dual authority for all EFT transfers.

**Finding No. 4: Policies and Procedures for Identifying and Reporting Suspected Illegal or Dishonest Behavior**

Response:

In accordance with the recommendation to enhance these policies and procedures, the Board adopted a revised version of this policy on November 22, 2013. FLVS has always maintained policies to detect and prevent fraud.

**Finding No. 5: Hiring Practices**

Response:

In response to the auditor's notes regarding employment history, FLVS has updated the process to obtain updated performance documents for review prior to extending an offer to candidates under consideration for an extended period of time.

As described by the auditor, FLVS does have written procedures relating to the hiring of instructional personnel. FLVS verifies performance through obtaining evaluations, letters of recommendation, and/or employment verification. Should a candidate be under consideration for an extended period of time, pending position availability, FLVS does follow up on candidate performance through a verbal acknowledgement from the candidate regarding any changes that may have occurred in the work performance and background review portions of the application. Should the candidate state changes have occurred, additional documentation is obtained and reviewed prior to proceeding with the verbal offer. If a candidate does not clear the employment verification process, the offer is rescinded.

Based upon the auditor's recommendations, effective with all new instructional applicants as of December 16, 2013, FLVS will also review information at the FLDOE Professional Practices Database as a method to further enhance our screening processes. Information in the database will be evaluated as part of the candidate review process and documented in the candidate application notes section of the applicant tracking system.

As noted by the auditor, FLVS does use the FLDOE Employment Screening Tools to confirm the instructional personnel's education and certification and no personnel tested were found to have prior disciplinary actions. In addition, we use the processing alert status (red, yellow, and green) within the tool to identify possible issues with candidate certification. Any disparities between candidate information provided/reviewed at the time of application and that obtained at the point of hire is evaluated and in certain circumstances, can result in a revocation of the offer.

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**



At the prompting of the auditor's comments concerning the need for verification of educational requirements for non-instructional positions, FLVS is evaluating the option to utilize the services of the National Student Clearinghouse in order to develop an alternative process for the verification of non-instructional candidate education/experience prior to offer.

The majority of support staff positions do not require a specific level of education, but recognize either a degree or experience (or a relevant combination of the two). FLVS best practice is to confirm education/experience through information provided in the resume, application details, and employment verification process. Any individual found falsifying application information such as education/degree is removed from consideration.

Lastly, as the auditor has noted timely contract issuance is important. To enhance our process and address the audit concern, a means to electronically issue, monitor, and follow up on contract issuance/signage is currently in development by the system vendor and will be implemented as soon as it is made available.

**Finding No. 6: Employee Compensation**

Response:

The absence of Director-level and above job classifications on the salary schedules has since been corrected, and revised salary schedules were recommended and approved by the FLVS Board of Trustees on December 10, 2013, to include Director-level and above job classifications and corresponding pay ranges on the published salary schedules.

Based on the auditor's concern, the procedure for supplements has been updated to include a formal and final approval (via signature) by the President/CEO on all individual requests for payment of recurring and nonrecurring supplements.

**Finding No. 7: Severance Pay**

Response:

While our general employment contracts include language regarding severance, FLVS has developed a policy that was Board approved on December 20, 2013. All severance payments that have been made by FLVS have been in accordance with Section 215.425(4) FS, and have been done in order to either mitigate potential legal claims or due to separation of service as a result of a reduction in force.

**Finding No. 8: Contractual Services**

Response:

The FLVS competitive selection process for requests for proposals is in compliance with Florida Statutes and State Board Rules. The auditor asserts that "evaluating vendors as a whole committee, rather than individually as a committee member could result in undue influence of committee members to assess certain vendors differently than their own preferences, negating the benefit of independent rankings **contemplated in the (FLVS) SOP Manual and Evaluation Committee Rules.**" However, due to the technical nature of many of the

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**



FLVS bids, and the expertise that certain staff members may have related to the specific services being bid, an evaluation by the committee as a whole may be more beneficial to the overall process and result in rankings that are more easily defensible, as contrasted with rankings which are done individually and which potentially could vary greatly. The main issue is not how the rankings are done, but were the final results defensible. Nothing in the auditor's comments indicate that **any** of the requests for proposals that they reviewed resulted in an inappropriate selection of a vendor. However, in response to the auditor's concern, the FLVS SOP process will be revised to accommodate alternate selection processes.

The selection of the advisor for Federal and State legislation, though not in compliance with the SOP Manual, nevertheless is in compliance with State Board Rule 6A-1.012(11)(a), which waives the requirement for competitive selection for professional services. The FLVS SOP Manual will be revised to conform to the State Board Rule.

To address the auditor's concern a request will be made to the Board to adopt a revised policy making a reference to Section 112.313 FS, including but not limited to conflict of interest.

**Finding No. 9: Purchasing Cards**

Response:

Per the auditor's recommendation, the procedures for issuing P-cards has been revised to ensure timely acceptance of the cards by the users, as well as ensuring documentation of each manager's approval.

FLVS has implemented significant P-card procedures, including a 100 percent management review and authorization of all employee transactions and a subsequent 100 percent audit of all P-card transactions by the expense team. Under this process, any inappropriate use of P-cards would be detected in a timely manner.

To address the auditor's concern and strengthen controls over lost or stolen cards, a procedure has been implemented to provide a spreadsheet to additionally document this information and note whether the card was lost or stolen, the date it was lost/stolen, the date it was reported to the bank, and the date it was replaced. However, it should be noted that lost or stolen P-cards with the dates the cards were reported lost or stolen and closed are housed in the FLVS P-card ESP system. The policy of the FLVS bank is to replace lost or stolen cards within 24 hours.

**Finding No. 10: Monitoring of Compliance with Franchise Agreements**

Response:

In an effort to enhance accountability controls, FLVS is developing methods to monitor Franchise classrooms for appropriate student/teacher ratios, validate student access to courses, and monitor student achievement in courses.

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**



FLVS has always worked closely with our Franchise partners concerning performance, outcomes, and overall satisfaction. However, as noted by the auditor, there were several performance reports that were not formally submitted to the FLDOE. The reports are now complete and have been submitted to the FLDOE.

The Board approves the contract agreement template which in Appendix A outlines courses, cost structure, and payment intervals; Appendix B establishes FLVS and Customer responsibilities; Appendix C shares information concerning the FLVS mission, goal, commitment, Franchise policy guide, academic integrity, grading, minimum length of course, and documentation of student work; and Appendix D outlines steps for enforcement, including Franchise termination, which help to ensure FLVS products and services are properly represented.

Although the contract does not require FLVS to obtain instructor MOA forms, FLVS does require that each Franchise Manager maintain these on file for his/her teachers employed in the program. Based on the auditor's recommendations, FLVS will require that each Franchise submit the signature page of the Instructor MOA for each instructor actively teaching students.

While FLVS does not monitor the certification process for the school districts in Florida, FLVS does as a part of the contract require Franchises to provide certified teachers for the program and spell out that each party is required to comply with all applicable federal and state laws, codes, rules, and regulations in performance of duties, responsibilities, and obligations pursuant to the Agreement. This would include meeting all State mandated requirements concerning employment of certified instructors. In order to enhance controls, FLVS will require the Franchise instructor's certificate number in order to cross check it against the FLDOE database.

**Finding No. 11: Student Eligibility**

Response:

In order to meet the auditor's requirement FLVS is updating its procedures for obtaining, reviewing, and maintaining eligibility records for all students in the part-time program. FLVS strives to make sure only eligible students are enrolled in its part-time Kindergarten through grade 5 instructional program.

**Finding No. 12: Enrollment Forecasting**

Response:

To address the auditor's concern, procedures have been implemented to ensure that supporting documentation is maintained for all forecasted enrollments. However, as noted by the auditor, all of the required FLVS forecasted and actual enrollments for 2012-13 were submitted to the Florida DOE. Furthermore, FLVS was appropriately funded based upon the actual documented enrollments for 2012-13.

**Finding No. 13: Performance Measures and Standards and Accountability System**

Response:

To address the auditor's concern, during its December 20, 2013, Board Meeting, the Board approved a policy providing for official Board approval of its standards for student achievement for each year. As noted by the

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**



auditor “FLVS had developed student achievement performance measures and standards through its Balanced Score Card systems, which includes assessments for end-of-course exam performance and FCAT assessment performance, and the expected level of performance. The FLVS had also implemented an accountability system that included a scorecard system, a teacher evaluation system, observations, and reports to ensure maximum access and quality.” In the past, the Board did discuss the performance measures, standards, and accountability systems at publicly noticed Board meetings where consensus was reached concerning the plans.

**Finding No. 14: Access Privileges**

Response:

To address the auditor’s concerns, a procedure has been developed to periodically review employee access privileges. Additionally, internal control procedures have been implemented for the updating of pay rates which ensures an adequate separation of duties. However, FLVS procedures generally provide for adequate internal control procedures, including the segregation of incompatible duties.

**Finding No. 15: Disaster Recovery Planning**

Response:

Florida Virtual School recognizes the importance of completing and testing a comprehensive disaster recovery plan. Currently, the IT disaster recovery is on the 2013-14 strategic roadmap to be completed by June 2014 and tested by December 2014. In the absence of a comprehensive plan, FLVS has created compensating controls to allow students to continue working should FLVS headquarters or data center be lost in a disaster.

Compensating controls:

- Learning Management System (LMS) – Educator has the following disaster mitigation
  - Separate data centers from FLVS
  - Maintains a hot swappable site for LMS
  - Maintains back-up and recovery procedures for recovery from a disaster
  
- FLVS
  - Creates and maintains “VSA lite” which allows students to pass through to educator in order to do work in their courses during maintenance

**Finding No. 16: Security Controls – User Authentication**

Response:

Florida Virtual School recognizes the importance of maintaining user authentication as a first line of defense in a comprehensive security program. Currently FLVS has several initiatives to improve user authentication policies within the organization.

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**



After reviewing the responses please advise me if you need further clarification or action on our part.

Sincerely,

A handwritten signature in cursive script that reads "Julie E. Young".

Julie E. Young  
President and CEO  
Florida Virtual School