STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-108
March 2016

FLORIDA VIRTUAL SCHOOL

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President/Chief Executive Officer

During the 2014-15 fiscal year, Ronald Blocker served as President/Chief Executive Officer and the following individuals served as Members of the Board of Trustees:

Michael H. Olenick to 1-23-15, [a] Chair
Dame Dhyana G. Ziegler, Ph.D., [b] Vice Chair to 1-26-15, [c]
Chair from 1-27-15
Brian S. Cunningham
Dorene McShea
Tammie J. Nemecek to 7-29-14 [d]
Linda J. Pellegrini
Vacant [e]

Notes: [a] Board member resigned on January 23, 2015. The chair position remained vacant from January 24, 2015, to January 26, 2015, and the member position remained vacant through June 30, 2015.

[b] Board member served beyond the end of term, September 10, 2014, until reappointed on September 18, 2015.

[c] The vice chair position remained vacant from January 27, 2015 to June 30, 2015.

[d] Board member resigned on July 29, 2014, and position remained vacant through June 30, 2015.

[e] Position remained vacant during the 2014-15 fiscal year.

The team leader was Patricia A. Tindel, CPA, and the audit was supervised by Brenda C. Racis, CPA.
For the information technology portion of this audit, the team leader was Brenda Shiner, CISA, and the supervisor was Chris Gohlke, CPA, CISA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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FLORIDA VIRTUAL SCHOOL

SUMMARY

This operational audit of the Florida Virtual School (FLVS) focused on selected FLVS processes and administrative activities and included a follow-up on findings noted in our report No. 2014-090. Our audit disclosed the following:

Finding 1: The FLVS continues to assess certain course fees differently than the Board-approved fees, resulting in total net under-assessed fees of $10,705 during the 2014-15 fiscal year.

Finding 2: Contrary to State law, the FLVS overpaid an employee's severance pay by $11,757. A similar finding was noted in our report No. 2014-090.

Finding 3: The FLVS vendor selection process continues to need enhancement.

Finding 4: The FLVS did not periodically review information technology (IT) access privileges. A similar finding was noted in our report No. 2014-090.

Finding 5: Some unnecessary or inappropriate IT access privileges continue to exist.

Finding 6: FLVS disaster recovery planning needs improvement.

Finding 7: Certain FLVS security controls related to user authentication, protection of confidential and sensitive information, and logging and monitoring continue to need enhancement.

BACKGROUND

The Florida Virtual School (FLVS) was established pursuant to State law[1] 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 State law.

The FLVS offers online courses to students residing anywhere in the world. The FLVS Global operates as a separate division within the FLVS and charges fees to out-of-State residents for courses taken. Out-of-State students may be enrolled by their school, school district, or state department of education; or directly enrolled with the FLVS. The FLVS's Terms and Conditions document serves as a contract for services provided, although the customer may also provide a contract if it meets the FLVS's terms and conditions.

For Florida residents, the FLVS full-time program is open to any public, private, or home school student in kindergarten through grade 12. For funding through the Florida Education Finance Program, the FLVS reports to the Florida Department of Education the full-time equivalent (FTE) student credit completions for courses offered to students who are Florida residents. The FLVS offers individual course enrollments to Florida students meeting certain eligibility criteria through the FLVS part-time program. The FLVS may

[1] Section 1002.37(1)(a), Florida Statutes.

also enter into franchise agreements with Florida district school boards and may establish the terms and conditions governing such agreements.[2]

The FLVS's governing body is the Board of Trustees (Board), which is composed of seven members appointed by the Governor to 4-year staggered terms.[3] The Board is to identify appropriate performance measures and standards based on student achievement that reflect the FLVS's statutory mission and priorities and 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.[4] The executive officer of the Board is the appointed President/Chief Executive Officer. For the fiscal year ended June 30, 2015, the FLVS reported 30,830 unweighted FTE students and received approximately $161 million in State funding for those students.

FINDINGS AND RECOMMENDATIONS

Finding 1: Course Fees

For the 2014-15 fiscal year, the FLVS reported revenues totaling $200.6 million, including $22 million generated from out-of-State course fees. According to Board policy,[5] the President/Chief Executive Officer establishes and revises course fees and obtains Board approval of the fees. The Board approved the 2014-15 fiscal year FLVS Global course fee schedule, which listed course fees of $400 per semester.

From the population of 4,197 FLVS Global students during the 2014-15 fiscal year, we selected and examined the records for 30 students to evaluate whether course fees were assessed in accordance with the Board-approved fee schedule of $400 per semester. We found that the FLVS did not appropriately assess course fees for 6 of the 30 students included in our testing. The differences we noted included course fees that were under-assessed by $25 each for 5 students and, due to an oversight, a course fee that was over-assessed by $35 for 1 student. FLVS personnel indicated that the under-assessments occurred because the FLVS contracted to provide FLVS services through another state's department of education (DOE) and, since the DOE provided assistance to the FLVS in developing certain coursework, FLVS charged lower fees. However, FLVS records did not document this arrangement and the Board did not approve the lower fees. We expanded our procedures and determined that, for the 2014-15 fiscal year, the FLVS under-assessed course fees by a net amount of $10,705, as 606 students were under-assessed $25 each (total of $15,150 under-assessed) and 127 students were over-assessed $35 each (total of $4,445 over-assessed).

Without the consistent assessment of Board-approved course fees, there is an increased risk that student fee payments may not be equitable or consistent with Board expectations and the FLVS may not recover all costs associated with the respective courses. A similar finding was noted in our report No. 2014-090.

[2] Section 1002.37(2)(i), Florida Statutes.

[3] Section 1002.37(2), Florida Statutes.

[4] Section 1002.37(1)(c), Florida Statutes.

[5] FLVS Policy F016 – Revenues and Fees.

Recommendation: The FLVS should take appropriate actions to ensure that course fees are assessed consistently with Board-approved fees.

Finding 2: Severance Pay

State law[6] defines severance pay as salary, benefits, or perquisites that are provided to an employee who has recently been or is about to be terminated. According to State law,[7] an employee may receive severance pay not provided for in a contract if the severance pay represents the settlement of an employment dispute. However, such pay may not exceed an amount greater than 6 weeks of compensation.

As part of our procedures, we reviewed FLVS records supporting severance payments totaling $24,094 to the four employees who received severance pay and separated from FLVS employment during the 2014-15 fiscal year. Our procedures disclosed that, to settle an employment dispute with an employee, the FLVS made a severance payment of $19,262 to the employee. The amount paid equated to compensation for a total of 15 weeks and 2 days of compensation and, therefore, exceeded by $11,757 the compensation amount allowed by State law for the settlement of an employment dispute. In response to our inquiry, FLVS personnel indicated that the severance payment was in the FLVS's best interest; however, State law does not provide any exception to the maximum severance pay allowed for the settlement of employment disputes. A similar finding was noted in our report No. 2014-090.

Recommendation: The FLVS should ensure that future severance payments do not exceed amounts allowed by State law.

Finding 3: Vendor Selection Process

The Legislature has recognized in State law[8] that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Board policy,[9] *Purchasing Guidelines*, and the *Standard Operating Procedures Manual* (*SOP Manual*) establish a process for planning and competitively selecting vendors for goods and services, including the solicitations to use based on the goods or services needed and expected costs.

The *SOP Manual* requires the FLVS to form evaluation committees to evaluate vendor proposals. Each committee member is required to read and individually rank vendor proposals and attend evaluation committee meetings to discuss proposals. Based on the committees' deliberations, the committees recommend vendors to the Board for contracting purposes.

For the period July 1, 2014, through May 31, 2015, the FLVS issued eight requests for proposals (RFPs) and awarded five contracts for goods and services ranging from $49,500 to $2.4 million, and totaling $3.4 million. Our review of the contracts for help desk services (totaling approximately $2.4 million),

[6] Section 215.425(4)(d), Florida Statutes.

[7] Section 215.425(4)(b), Florida Statutes.

[8] Section 287.001, Florida Statutes.

[9] FLVS Policy F011 – Purchasing.

global course support and development services (totaling $470,000), and student driver training services (totaling $400,000), along with the related RFPs and documentation, disclosed:

- The RFP for help desk services identified three categories that the FLVS would use to evaluate and rank proposals: price, the vendor's demonstrated service level with current customers, and the vendor's demonstrated ability to provide requested support. Based on these three categories, the evaluation committee ranked the proposals and awarded the contract to the highest-ranked vendor. However, the RFP did not clearly establish the criteria vendors were to use for price proposals or describe the criteria the committee would use to evaluate and rank the price proposals received. For the submitted proposals, the vendors used a variety of pricing methods, such as prices based on the type services, set price per call, base price plus insurance costs, an all-inclusive price, and prices that included a set-up fee. Given the variety of proposal pricing methods, and the lack of FLVS records to document the evaluation and ranking process used by the committee, the basis upon which the committee evaluated and ranked the price proposals was not apparent of record. Board-approved definitive criteria in the RFPs for vendors to use when submitting price proposals, and for committees to use when evaluating and ranking such proposals, would serve to document the vendor selection process should a dispute occur.
- Contrary to the *SOP Manual*, the respective committees evaluated the help desk and driver training service proposals using a scoring sheet completed by the committee as a whole, rather than scoring sheets completed individually by each committee member. The benefits of vendor proposal rankings prepared by each committee member based on his or her individual conclusions, as contemplated in the *SOP Manual*, are negated by the preparation of a scoring sheet by the committee as a whole. A similar finding was noted in our report No. 2014-090.
- The time and date stamped on two of three envelopes containing proposals for the global course support and development services and on two of six envelopes containing proposals for the help desk services were manually changed and FLVS records did not evidence the basis for the changes. Further, although requested, the FLVS employee responsible for documenting the proposal receipt times and dates could not explain the basis for the changes. As such, the FLVS may be limited in its ability to demonstrate that the proposals considered by the committee were received by the respective submission deadlines.
- For the global course support and development services, FLVS records did not evidence the basis for selecting other than the lowest price proposal. In response to our inquiry, FLVS personnel indicated that the FLVS awarded the contract based on the vendor's substantial experience; however, FLVS records did not evidence the Board's consideration of the vendor's experience as the basis for awarding the contract or that FLVS personnel conducted employment or other verifications related to the vendor's experience. Without such records, the Board is limited in its ability to demonstrate that the vendor was selected in a fair and equitable manner.

Recommendation: The FLVS should enhance the vendor selection process to ensure that:

- **Board-approved definitive pricing criteria are included in the RFPs for vendors to use when submitting price proposals and for committees to use when evaluating and ranking such proposals;**
- **Committee members individually evaluate and rank vendor proposals;**
- **Documented explanations evidence the basis for proposal receipt date and time changes; and**
- **The Board approves the basis for selecting vendor proposals that are not the lowest price proposals.**

Finding 4: Information Technology – Access Controls

The FLVS hosts and maintains the Virtual School Administrator Suite (VSA) application used by FLVS part-time students. The VSA application functions as a student information system, an individual student registration and admission system, and a mass student registration and admission system and is used by students, parents, guardians, instructors, school district staff, and FLVS administrative staff. From the VSA application, FLVS part-time students access Educator, a learning management system, that is made available under contract with Ucompass and provides the course content for students to complete coursework, master techniques, and demonstrate learning. FLVS full-time students attend the Connections Academy and use Connexus, by Connections Education, a FLVS educational partner that provides student information, registration, and learning management system services under contract for all FLVS full-time students. In April 2015, the FLVS implemented the Workday finance and human resources applications, which replaced the finance and human resources applications that the FLVS previously used.

Effective information technology (IT) access controls include documentation of identified authorized employees and their assigned access privileges along with the periodic review of the assigned employee access privileges. Periodic review of IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job duties and that assigned access privileges enforce an appropriate separation of incompatible duties.

Our audit procedures disclosed that, while the Board had adopted a policy requiring periodic review of access privileges, the FLVS had not developed documented procedures for performing the reviews. Such procedures could identify the review frequency, documentation to maintain, and responsible personnel. Without such procedures, FLVS personnel lack the guidance necessary to perform comprehensive, periodic reviews of access privileges and the risk that the existence of inappropriate or unnecessary access privileges may not be timely detected is increased. Had appropriate comprehensive, periodic reviews of access privileges been performed, District personnel may have detected the inappropriate or unnecessary access privileges noted in Finding 5. A similar finding was noted in our report No. 2014-090.

Recommendation: The FLVS should develop and implement procedures to ensure the continued appropriateness of assigned access privileges and compliance with Board policy requiring periodic review of such privileges.

Finding 5: Information Technology – Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide users access to IT resources based on a demonstrated need to view, change, or delete data; restrict users from performing incompatible functions or functions inconsistent with their assigned job duties; and ensure the timely deactivation of IT access privileges when staff separate from employment or when the use of an account is no longer necessary.

Our review of all database administrator, system administrator, and software developer access privileges to the VSA application, applicable production programs and databases, and the underlying network indicated that:

- Seventeen IT staff, including database administrators, system administrators, software developers, and a quality assurance analyst, who needed end-user inquiry access to perform troubleshooting functions also had inappropriately been granted end-user update access privileges. These update access privileges allowed the staff to perform incompatible functions or functions outside their areas of responsibility and included the ability to change student grades in the VSA application.
- Two active VSA database administration accounts (with full update capabilities) had inappropriately remained assigned to FLVS employees who, according to FLVS staff, had separated from employment. Although the FLVS had procedures in place to promptly deactivate access privileges upon an employee's separation from FLVS employment, FLVS staff were unable to identify when the two accounts were last used to log in to the VSA database.

These inappropriate access privileges increase the risk of unauthorized disclosure, modification, or destruction of VSA data and other IT resources. Also, without prompt account deactivation of access privileges for employees who separate from employment, the risk is increased that access privileges may be misused by former staff or others. Periodic reviews of access privileges, as discussed in Finding 4, may timely detect inappropriate or unnecessary access privileges. A similar finding was noted in our audit report No. 2014-090.

Recommendation: The FLVS should ensure that assigned access privileges enforce an appropriate separation of incompatible functions, restrict employees to only those functions necessary for their assigned responsibilities, and are promptly deactivated when staff separate from employment.

Finding 6: Information Technology – Disaster Recovery Planning

The availability and reliability of the FLVS computing infrastructure is critical to successful FLVS operations. Accordingly, it is essential that the FLVS maintain an effective disaster recovery plan 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, the backup and storage of critical data files, and an alternate processing facility that is geographically separated by distance from the primary data center so as not to be susceptible to the same hazards. Such a plan should also provide a step-by-step recovery process and identify staff responsible for the recovery activities. To disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations, the plan elements should be tested periodically.

The FLVS developed and tested a written disaster recovery plan for the restoration of critical FLVS processing and the recovery of the corresponding data files, including school and operational data. However, the alternate processing facility for recovery purposes was in close proximity to the primary data center, which increases the risk that a disaster causing a disruption at the primary data center would likewise adversely affect the alternate processing facility and recovery efforts. Additionally, the FLVS contracted with two service providers for hosted online education services as part of the FLVS online learning platform. While these two service providers had developed their own disaster recovery plans; neither had tested their disaster recovery plans to ensure that the plans will function as intended. Given the importance of the provider services to FLVS operations, it is essential for the FLVS to ensure continuity of these services in the event of a disaster. The close proximity of the alternate processing facility and the lack of provider disaster recovery plan testing 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.

Recommendation: To provide reasonable assurance of continuing critical operations should a disaster affect the entire local area, the FLVS should identify and contract with an alternate processing facility that is not in close proximity to its primary data center. Additionally, FLVS management should confirm that contracted service providers for critical online education services periodically test their disaster recovery plans to ensure their plans will function as intended.

Finding 7: Information Technology – Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit procedures disclosed that certain FLVS security controls related to user authentication, protection of confidential and sensitive information, and logging and monitoring 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, protection of confidential and sensitive information, and logging and monitoring, the risk is increased that the confidentiality, integrity, and availability of FLVS data and IT resources may be compromised. Similar findings were communicated to FLVS management in connection with our report No. 2014-090.

Recommendation: The FLVS should improve certain security controls related to user authentication, protection of confidential and sensitive information, and logging and monitoring to ensure the continued confidentiality, integrity, and availability of FLVS data and IT resources.

PRIOR AUDIT FOLLOW-UP

The FLVS had taken corrective actions for findings included in our report No. 2014-090 except as noted in Findings 1, 2, 3, 4, 5, and 7.

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.

We conducted this operational audit from March 2015 to November 2015 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 objectives of this operational 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, rules, regulations, contracts, grant agreements, and other guidelines.
- 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, reliability of records and reports, and the safeguarding of assets.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-090.
- 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 information technology (IT) systems and controls included within the scope of the audit, weaknesses in management's internal controls, and IT controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; 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, activity, or function; 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 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 records and transactions. Unless otherwise indicated in this report, these records and 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, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed FLVS information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as access controls and disaster recovery planning.

- Evaluated the 28 program change management user accounts as of May 28, 2015, to determine whether the FLVS followed the principles of legitimate use, least privilege, and separation of duties.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced to protect confidential and sensitive information in accordance with IT best practices.
- Reviewed FLVS procedures for maintaining and reviewing access to IT resources and evaluated the effectiveness of selected access controls to determine whether access privileges to the FLVS environment were appropriately restricted. Specifically, we evaluated:
    - The appropriateness of all administrative access privileges to the production domain and 9 critical application servers as of May 18, 2015 (16 total accounts).
    - The appropriateness of the administrative access privileges of the 3 Virtual School Administrator (VSA) production databases as of May 4, 2015 (33 total accounts).
    - The appropriateness of the 24 end-user VSA access privileges of all database administrators, system administrators, software developers, and quality assurance analysts as of May 22, 2015 (32 total VSA accounts).
    - The appropriateness of all users with access privileges for selected critical payroll and finance functions in the Workday applications as of May 5, 2015.
- Evaluated FLVS procedures and reports for monitoring the appropriateness of access to, and modification of, sensitive or critical resources.
- Evaluated policies and procedures to determine whether the FLVS maintained duplicates of critical programs and data.
- Evaluated FLVS system monitoring controls to determine whether IT equipment capacity was not exceeded and operating performance levels were maintained appropriately, including planning for future capacity.
- Determined whether comprehensive disaster recovery plans for all critical FLVS IT resources were in place and had been recently tested.
- Evaluated the background screening process for IT staff and contractors. Specifically, we selected and examined the background screening documentation for 5 of the 17 IT contractors as of April 30, 2015, and 10 of the 63 IT employees as of May 14, 2015.
- Evaluated the accuracy of the student and course enrollment classifications for billing and reporting purposes. Specifically, we reviewed the student and course enrollment records for 10 students enrolled in FLVS programs to ensure that the student and course enrollment records were accurate for billing and reporting purposes.
- Evaluated the data conversion and data reconciliation processes for the transition to the new finance and human resource system to determine whether data was complete and accurate.
- Examined Board meeting minutes to determine whether the Board approved policies and procedures in effect during the 2014-15 fiscal year and provided public access to the minutes.
- Examined FLVS records to determine whether the FLVS had developed and implemented an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
- Evaluated FLVS policies and procedures for identifying potential conflicts of interest. For the 28 employees required to file statements of financial interests forms for the 2013 calendar year, including the President/Chief Executive Officer, Board members, Chief Financial Officer, and certain purchasing agents, we reviewed Florida Department of State, Division of Corporation,

records; statements of financial interests; and FLVS records to identify any potential relationships that represented a conflict of interest with FLVS vendors.

- Determined whether students met the eligibility requirements of Sections 1002.37(8)(a) and 1002.455(2), Florida Statutes, by selecting and examining FLVS records related to 30 students from the population of 1,133 FLVS part-time kindergarten through grade 5 students listed in Florida Department of Education (FDOE) records. In addition, we determined whether specific eligibility factors including student attendance at a State public school during the prior school year, attendance during October and February for reporting purposes, prior virtual instruction, and a sibling currently enrolled in virtual instruction who was also enrolled in that program at the end of the prior school year were considered. We also selected and examined FLVS records related to 30 students from the population of 202,755 FLVS students listed in FDOE records to determine whether residency requirements were met and to verify that Florida students were not assessed tuition.
- From the population of 502 Florida high schools, selected and examined FLVS enrollment records for 30 high schools 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.
- From the population of 6,523 students subject to Statewide end-of-course assessments, selected and examined FLVS records for 30 students to determine whether the FLVS complied with the Statewide assessment requirements in Section 1008.22, Florida Statutes, by ensuring that FLVS students took the Statewide and end-of-course assessments and that students were provided access to the school district testing facilities.
- Evaluated controls over school funds and revenue production by reviewing FLVS records to determine whether the Board pursued revenue generation strategies in accordance with Section 1002.37(2)(c), Florida Statutes. We also examined FLVS records to determine whether FLVS Global students were the only students required to pay tuition and, from the population of tuition revenues totaling $22 million, we evaluated whether the tuition was properly assessed by testing FLVS records for 30 student fee receipts totaling $15,870. Based on the initial test results, we tested 733 additional student fee receipts totaling $282,495 to determine whether tuition had been properly assessed.
- From the population of revenues totaling $192,184,435 collected for the period July 1, 2014, through May 31, 2015, selected and examined FLVS records supporting licensing revenues totaling $1,201,553, royalties totaling $550,000, and enrollment sales and services totaling $7,097,664 to determine whether revenues were properly recorded, timely deposited, and, as applicable, complied with Section 1002.37(2)(c), Florida Statutes.
- Examined FLVS records to determine whether the Board established an adequate, comprehensive electronic funds transfers (EFT) policy and evaluated the adequacy of EFT controls. From the population of 164 total EFTs and payments totaling $20,491,235 during the 2014-15 fiscal year, we selected and examined 7 total EFTs and payments totaling $16,702,970 to determine whether the EFTs and payments were adequately supported, properly authorized, and conformed to good business practice.
- Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether all investments made during the 2014-15 fiscal year were in accordance with those policies and procedures.
- Reviewed the IT, Instructional, and Support staff salary schedules to determine whether the Board approved positions with pay grades at and above the director level.
- From the population of 235 employees hired during the period July 1, 2014, through May 11, 2015, selected and examined FLVS records for 30 employees to determine whether the employees were hired in accordance with FLVS policies and procedures.

- Reviewed policies and procedures for terminal leave payments of accumulated annual and sick leave to determine compliance with Board policies. From the population of 178 former employees paid $670,371 for terminal leave during the 2014-15 fiscal year, we selected and examined FLVS records for 15 former employees paid terminal pay totaling $195,454 to determine whether the pay was calculated in compliance with Board policies.
- To determine whether severance payments were made in compliance with State law, examined documentation supporting severance payments totaling $24,094 to the four employees who received severance pay and separated from FLVS employment during the 2014-15 fiscal year.
- For the 42 employees who received bonus payments totaling $66,450 for the period July 1, 2014, through May 22, 2015, evaluated whether the payments were in accordance with Section 215.425(3), Florida Statutes.
- Determined whether the appointed President/Chief Executive Officer's compensation had been evaluated by the Board for reasonableness and was paid in accordance with his contract.
- From the population of 2,208 employees as of May 15, 2015, selected and examined FLVS records for 30 employees to determine whether personnel who had direct contact with students were subjected to the fingerprinting and background checks required by Section 1002.45(2)(a)3., Florida Statutes.
- From the population of travel expenditures totaling $907,587 during the period July 1, 2014, through March 31, 2015, selected and examined 30 transactions totaling $10,264 to determine whether travel expenses were administered in accordance with Section 112.061, Florida Statutes, and FLVS policies and procedures.
- From the population of purchasing card (P-card) transactions occurring for the period July 1, 2014, through March 31, 2015, totaling $3,751,710, selected and examined 30 transactions totaling $618,566 to determine whether P-cards were administered in accordance with the FLVS policies and procedures. Also, we determined whether all 34 employees who had been assigned P-cards and separated from FLVS employment during the 2014-15 fiscal year had their P-cards timely canceled upon separation from employment.
- Determined whether rebate revenues totaling $94,476 received from P-card and e-Payable programs were allocated to the appropriate FLVS fund types.
- Evaluated the adequacy of FLVS controls over franchise agreements and related activities. Specifically, we determined whether the FLVS:
    - Established required criteria defining the elements of an approved franchise in accordance with Section 1002.37(2)(i), Florida Statutes;
    - Included reasonable provisions in franchise agreements;
    - Properly recorded franchise receipts; and
    - Complied with Section 1002.37(2)(i), Florida Statutes, by reporting the performance of each franchise to the FDOE.
- Evaluated the adequacy of FLVS controls over performance measures and standards and accountability. Specifically, we determined whether the Board identified appropriate performance measures and standards based on student achievement and implemented an appropriate accountability system as required by Section 1002.37(1), Florida Statutes.
- Evaluated the reasonableness of student enrollment forecasts and supporting documentation and whether the FLVS timely submitted semi-annual forecast reports to the State Board of Education (SBE) in accordance with Section 1002.37(2)(j), Florida Statutes,.
- Determined whether the FLVS submitted enrollment and credit completion information to the SBE in accordance ith Section 1002.37(2)(j), Florida Statutes.

- Determined whether the FLVS submitted the required annual report to the Governor, Legislature, FDOE, and SBE as required by Section 1002.37(6), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. FLVS's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

Sherrill F. Norman, CPA
Auditor General

EXHIBIT A
MANAGEMENT'S RESPONSE

February 23, 2016

Sherrill F. Norman, CPA
Auditor General State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street Tallahassee, Florida 32399-1450

RE: Audit – Florida Virtual School (FLVS) Operational Audit

Dear Ms. Norman:

Pursuant to your letter of January 26, 2016, enclosed please find the following responses listed below to the preliminary and tentative findings and recommendations of the operational audit of Florida Virtual School. We appreciate the recommendations and advice of the audit staff and are committed to our ongoing effort of improving the effectiveness and efficiency of our processes.

Finding No. 1: Course Fees

Response:

FLVS has taken the appropriate actions to ensure that all course fees are set at the annual board approved amount and will continue to ensure this consistent practice. All personnel have been informed in writing that no fees other than as approved by the Board of Trustees may be assessed. Our internal audit personnel will be randomly sampling throughout the year to provide assurance of compliance on an ongoing basis.

Finding No. 2: Severance Pay

Response:

General employment contract language has been adjusted to reflect Section 215.425(4) Florida Statute. The similar finding mentioned for the 2014 Audit is specifically regarding a reduction in force period which execution was due to mitigating potential legal claims or due to separation of service as a result of a reduction of workforce at that time.

EXHIBIT A
MANAGEMENT'S RESPONSE

Finding No. 3: Vendor Selection Process

Response:

Criteria will be included in the RFPs for vendors to use in preparing their responses and for committees to use when evaluating proposals. Standardized price sheets will be provided in the RFP for vendors to complete and for committees to use when evaluating proposals. The RFP will specify how price will be evaluated.

The RFP will be evaluated independently by individual committee members utilizing specific criteria in the RFP with the Procurement Facilitator collecting the individual scores and tallying them. The RFP document will be revised to include these changes.

A note will be made to the solicitation log when an explanation is merited for a date/time stamp issue. Otherwise, there will be no changes made. An explanation will be required on the solicitation log when there is any manual change to the date/time stamp or other abnormality encountered when bids are received. The explanation will be signed and dated by the responsible purchasing representative for the solicitation and the Director of Procurement. This requirement will be incorporated into the Procurement SOPs.

Awards of RFPs shall be made in accordance with specifications in the published RFP. The specifications will delineate the criteria that will be used by the committee to evaluate proposals. The committee will score in accordance with the established criteria. The criteria will include price and other qualification based requirements. If price is the primary basis for an award, a fully justifiable reason for not awarding to the lowest priced proposal shall be prepared and signed off by the responsible procurement representative and the Director of Procurement. For those solicitations that require Board approval, this rationale shall be provided in the resolution recommending award. The reason must be fully documented based on the criteria contained in the solicitation.

EXHIBIT A
MANAGEMENT'S RESPONSE

Finding No. 4: Information Technology – Access Controls

Response:

FLVS has a policy to address periodic reviews of access privileges, however, the implementation of this specific policy and subsequent procedures was prioritized to begin after the VSA re-architecture project was completed. The VSA re-architecture project addressed critical gaps in the VSA security posture as noted in the 2014 audit. As the VSA re-architecture project has now been completed, IT Operations has begun procedures as recommended by the Auditor General.

Finding No. 5: Information Technology- Access Privileges

Response:

FLVS is developing security features that will allow for the impersonation of users within the production system where activity is logged and reviewed. In the meantime, inappropriate access is being revoked from IT staff while procedures are developed to address IT access for problem resolution. The two active DBA accounts have been permanently inactivated. Steps are being taken to assure each of the audit findings are addressed.

Finding No. 6: Information Technology- Disaster Recovery Planning

Response:

FLVS acknowledges primary and secondary processing facilities are geographically in close proximity as noted. Since the audit, FLVS has begun the process of moving its disaster recovery site to a cloud-based vendor which will resolve the proximity issue. FLVS has now begun conversations with vendors to address disaster recovery testing to ensure their plans function as intended and will be independently testing effectiveness of the disaster recovery processes and facilities.

EXHIBIT A
MANAGEMENT'S RESPONSE

Finding No. 7: Information Technology- Security Controls

Response:

FLVS acknowledges that continued maturation of the security posture is required to protect students and staff members alike. FLVS has taken steps since the 2014 audit to address critical gaps in security controls as noted. Upon the completion of this initial project, additional projects for the 2016/17 school year are being developed and will be implemented to specifically address remaining issues with security controls.

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

Sincerely,

Ronald Blocker
President and CEO Florida Virtual School