

STATE OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION
FINANCIAL RELATED AUDIT
NORTH CAROLINA VIRTUAL PUBLIC SCHOOL
NOVEMBER 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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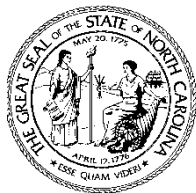
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AUDITOR'S TRANSMITTAL

November 25, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
State Board of Education, Department of Public Instruction
The Honorable Dr. June Atkinson, State Superintendent

This report presents the results of our financial related audit at the Department of Public Instruction, North Carolina Virtual Public School. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the *Audit Findings and Responses* section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit of the Department of Public Instruction, North Carolina Virtual Public School. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

North Carolina Virtual Public School (NCVPS) was established in 2005 under Session Law 2006-66 (Section 7.16.(a-e)) to provide e-learning opportunities to students. With e-learning, students are able to take classes that are not offered at their local schools. The authorizing legislation states virtual course offerings should be provided at no cost to students who are enrolled in North Carolina's public schools, Department of Defense schools, and schools operated by the Bureau of Indian Affairs.

NCVPS began offering online courses to high school students in 2007. In the subsequent years, NCVPS expanded its course offerings to be available to middle school students. During the 2011-2012 academic year, student enrollment totaled 49,189, as compared to 6,984 during the 2006-2007 academic year. NCVPS offers over 100 courses and serves all 115 school districts and 36 charter schools.

Total NCVPS expenditures during FY 2012 were approximately \$19.7 million. Virtual teacher salaries and related payroll taxes accounted for \$15.7 million. These activities are funded entirely with State funds. Funds are provided by reducing each local or charter school's allotment proportionately by the number of its students that are enrolled in virtual classes.

AUDIT SCOPE AND OBJECTIVES

The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period July 1, 2012 through January 31, 2013 and included selected internal controls in the North Carolina Virtual Public School (NCVPS). During our audit, we considered internal control related to the following control objectives:

Student Enrollment – Student enrollment numbers are used by the Department of Public Instruction (Department) to derive teacher pay and report annual enrollment totals to the North Carolina Board of Education for the purpose of tracking enrollment growth. We examined internal control designed to ensure that the Department paid teachers for only the students that completed courses and accurately reported student enrollment to the North Carolina State Board of Education. During our audit period, approximately 24,000 students enrolled in online courses for the summer and fall semesters. Teacher pay for these classes totaled approximately \$6.6 million.

Teacher Quality – The No Child Left Behind Act requires states to ensure that teachers of core academic subjects are highly qualified. We examined Departmental internal control designed to ensure that Virtual Public School teachers are certified and qualified in the subject they teach. We also examined the evaluation process to determine if the effectiveness of the teachers was monitored.

Course Quality – Session Law 2011-145 requires the virtual classes to meet quality standards. We examined Departmental internal control designed to ensure that Departmental course standards are established and met, and coursework was aligned with the North Carolina Standard Course of Study.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions, as considered necessary in the circumstances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

RESULTS AND CONCLUSIONS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These deficiencies were related to the Student Enrollment and Teacher Quality objectives. These items are described in the *Audit Findings and Responses* section of this report. Management's response is presented in the *Agency Response to Findings* section of this report. We did not audit the response, and accordingly, we express no opinion on it.

AUDIT FINDINGS AND RECOMMENDATIONS

1. CONTROL WEAKNESSES OVER ENROLLMENT DATA INCREASE RISK OF ERRORS IN TEACHER PAY

The North Carolina Virtual Public School (NCVPS) does not have adequate controls in place to prevent or detect errors in student enrollment numbers. Student enrollment is a key factor used to calculate NCVPS teacher pay. As a result, there is an increased risk that errors could be made in teachers' pay. During our audit period, NCVPS paid teachers approximately \$6.6 million for courses taught during the summer and fall semesters.

System Access Not Monitored

The NCVPS provides Local Educational Authorities (LEAs) and local schools with the ability to grant individuals access to the registration system. The registration system is the computer system that allows designated individuals in schools to enroll students in virtual classes. Normally the counselors at the schools are given this access however, the NCVPS does not monitor who has access to this system.

Our tests found that four teachers of virtual classes also had the capability to enroll students in classes. Since teachers' pay is based on the number of students completing their course, these four teachers would have the ability to add students' names to the roster in order to inflate the enrollment numbers that could ultimately determine their pay. Although the Department's enrollment system will not allow the counselor/teacher to add students to a specific teacher's course, the possibility still exists for a teacher to directly inflate his/her pay if he/she is the sole teacher of a certain course. We determined approximately 28% of the NCVPS courses offered during our audit period only had one teacher for the course.

In addition, there is no requirement that persons entering information in the registration system have unique user names. Sixteen of the 822 users had school related names or first names only as their user name. It is possible that some of these 16 could also be teachers of virtual classes.

The *Statewide Information Security Manual* requires that agencies establish and enforce information security policies to limit access to State resources. Policies shall ensure that only authorized persons have access as is appropriate for an agency in accordance with the agency's business needs.

No Independent Review of Enrollment Data

Teachers in the NCVPS program are paid based on the number of students actually completing their courses, not just enrolling in the courses. However, the report used to compute the number of students completing each course contains not only students that completed, but also students that requested to join a course that were never enrolled as well as students that enrolled but later dropped the course. Because the report generated

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

by the enrollment system contains students not completing the courses, a NCVPS staff member must identify students that do not have an “enrolled” or “late add” status and remove those students from the report. These revised totals are then used to compute teachers’ pay. Although we found no instances of students erroneously left on the report used for teachers’ pay for a sample of 60 payments, there is an increased risk of errors because there was no independent review to ensure all necessary redactions were made.

In addition, NCVPS relied on a Microsoft Access database to calculate teacher pay based on enrollment numbers multiplied by the approved pay rate. NCVPS did not review teacher pay calculations to ensure that teacher pay rates had been updated correctly and the system calculations were accurate. However our test of 60 payments did not reveal any errors in the payroll calculations.

Recommendation: The Department should put effective controls in place to ensure access to the enrollment system is restricted to appropriate individuals. North Carolina Virtual Public School should implement effective review procedures to ensure that enrollment data and teacher payment calculations are correct.

2. NCVPS ANNUAL REPORT CONTAINED ERRORS

The enrollment totals in the NCVPS Annual Report submitted to the State Board of Education contained errors. As a result, the usefulness of the report may be diminished and users could reach wrong conclusions regarding the program. The report describes the accomplishments of the program as well as details the enrollment for each LEA and Charter School.

Session Law 2011-145 Section 7.22(h) requires NCVPS to submit an annual report to the State Board of Education that includes student enrollment data and other information from the previous fiscal year. We found errors on the 2012 NCVPS Annual Report involving the LEA enrollment total, individual charter school omissions, and total NCVPS enrollment as described below:

- **LEA Enrollment Total:** The LEA Enrollment Total was reported as 49,189. However, that number was actually the total of all enrollments including LEAs, charter schools, and special schools (e.g. North Carolina School of Science and Math, North Carolina School of Arts, etc.). According to supporting documentation, the LEA Enrollment Total should have been 47,463 or 1,726 less than the amount reported.
- **Charter School Omissions:** The report omitted 22 charter schools that had students enrolled in the NCVPS. The enrollment of these 22 omitted charter schools totalled 873.
- **Total NCVPS Enrollment:** Total NCVPS enrollment was reported as 50,042. However, according to NCVPS records, total enrollment should have been reported as 49,189.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: NCVPS should enhance its review process to ensure the enrollment figures shown on the NCVPS Annual Report are complete and accurate.

3. TEACHER EVALUATION PROCEDURES NOT FOLLOWED

The NCVPS evaluation procedures were not consistently followed by the instructional leaders. The NCVPS' written procedures detailed the frequency of evaluations to be performed but they did not describe how the evaluations were to be documented. In addition, the instructional directors did not ensure that the procedures were followed. Performance evaluations are necessary to ensure that teacher deficiencies are identified and corrected in a timely manner.

The instructional leaders perform teacher evaluations weekly, bi-weekly or monthly, depending on the tenure of the teacher according to the current procedures. Teachers are required to respond to evaluations and any needed coaching and/or action plans based on the results. This process is to be monitored by the instructional leaders and the instructional director.

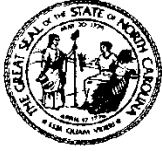
We reviewed 60 teachers that taught during the summer and fall 2012 semesters and noted the following:

- One instructional leader, which is also a teacher, performed her own evaluation.
- The instructional leaders for three teachers completed the fall 2012 evaluations after the February 22, 2013 request from the auditors. Two were completed on March 1, 2013 and one on March 4, 2013.
- The instructional leaders did not complete evaluations for two teachers.
- One teacher had unsatisfactory or the lowest performance rating on the evaluation and did not provide any comment or feedback in the required teacher comment section of the teacher portfolio on how to improve.
- The instructional leader for six SAT Prep teachers during the fall 2012 semester did not use the standard departmental evaluating form when evaluating teachers. The document used did not contain the performance categories, the name of the evaluator, evaluator comments, or teacher feedback as documented in the standard evaluating form.

Recommendation: We recommend that NCVPS design and implement written policies and procedures that ensure instructional leaders consistently monitor the teachers for quality and effectiveness. We also recommend that the instructional directors monitor the evaluation process.

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AGENCY RESPONSE TO FINDINGS



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

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November 12, 2013

The Honorable Beth A. Wood, State Auditor
Office of State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Auditor Wood:

The North Carolina Department of Public Instruction would like to thank the Office of State Auditor for the financial related audit work performed related to the North Carolina Virtual Public School (NCVPS). The Department of Public Instruction strives for excellence in all aspects of our work. We appreciate the help provided by your office to identify areas for improvement. Our response to the findings and recommendations in your report are below.

The audit performed by the Office of State Auditor included procedures to ensure adequate internal controls over student enrollment, teacher quality, and course quality. Management within the Department of Public Instruction and the NCVPS appreciate the assurance provided by the audit.

NCVPS grants access to the registration system to a single individual designated by the principal at each school. School level access is monitored by the school principal and the system level eLearning coordinator. In June 2013, NCVPS began a process of screening virtual instructors to verify that they do not have access to the registration of students at a face-to-face school. This screening process ensures a segregation of duties and prevents fraudulent student enrollments.

In addition, an independent review by the Chief Technology Officer and Payroll Manager of enrollment data and payroll calculations began in June 2013. This review process verifies the accuracy of the enrollment counts based on the business rules in place and verifies the final calculation of pay. The process in place will decrease the risk of errors as staff calculations will be verified.

The NCVPS Annual Report is offered for information only and no action is taken based on the enrollment statistics reported. The errors found in the audited report were the result of a cut and paste error in the editing process of the report document. The values had been reviewed and were correct prior to the editing process. To resolve typographical errors such as the one that appeared in this report, the *2012-2013 Annual Report* will be proofread after the final edits and accuracy

OFFICE OF THE STATE SUPERINTENDENT

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

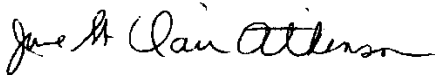
AGENCY RESPONSE TO FINDINGS (CONCLUDED)

of enrollment data confirmed by the Chief Technology Officer, the Chief of Outreach and Support, and the Executive Director of NCVPS.

As noted in the audit report, NCVPS did have evaluation procedures in place, and at the time of the audit, NCVPS had already identified gaps based largely on how the process was documented. During the audit timeframe, NCVPS depended on email and Google docs to document processes. Since August 2013, all requirements and procedures are in written form, located in one area with corresponding documentation, guidelines and weekly monitoring in place to ensure that the processes are followed. Teachers and Instructional Leaders are consistently monitored by Instructional Directors to ensure each expectation is met and coaching is provided as needed. The overall process is monitored by the Chief Academic Officer.

The Department of Public Instruction and North Carolina Virtual Public School feel that appropriate action has been taken to address the findings in the audit report. Procedures have been implemented to properly mitigate all risks noted.

Sincerely,



June St. Clair Atkinson

- c: Mr. William Cobey, Chairman, NC State Board of Education
- Dr. Tracy Weeks, Executive Director, North Carolina Virtual Public School
- Mr. Philip Price, Chief Financial Officer
- Ms. Sarah Harris, Director of Financial Services
- Ms. Jeani Allen, Director of Internal Audit

ORDERING INFORMATION

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