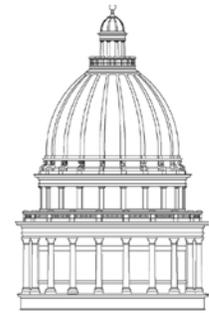


**REPORT NUMBER ILR 2013-C  
February 2013**

**A Limited Review of the  
Electronic High School**

The Electronic High School (EHS) benefits many Utah students by providing online courses for high school credit. The EHS, which is administered through the Utah State Office of Education (USOE), allowed more than 36,000 unique students on-demand access to courses over the past two years to meet students varied needs. We organized the results of our review into two main sections:

- **Performance Metrics and Financial Information of the Electronic High School.** As directed by *Utah Code*, we provide performance metrics concerning the EHS. In addition, we thought it was important to provide additional information concerning the data that we analyzed. Student data from fiscal years 2011 and 2012 show that students complete about 60 percent of the classes in which they enroll. The total number of full credits earned in 2012 was 5,690 with a cost of \$2,582,500 to operate the EHS, for an average cost of \$454 per full credit earned. However, program metrics vary significantly among courses.
- **Oversight of the Electronic High School Needs Improvement.** During our review of the EHS, we found serious oversight weaknesses. The EHS violated administrative rules for some purchases made through their fiscal agent, and lacks internal controls for these and other purchases. Over \$26,000 was disbursed in error by the fiscal agent because of the lack of controls. In addition, the EHS purchased over \$53,000 of equipment for contract employees, which violates contracts that were in place. We recommend that the EHS no longer be allowed to use a fiscal agent for purchases and that all funds be controlled



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**EHS provides on-demand access to high school classes to meet students' varied needs.**

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**This report addresses:**

- **EHS performance metrics (page 4)**
- **Needed oversight improvements (page 17).**

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by the USOE. Oversight also needs to be improved over the funds that the EHS receives from the Driver Education Tax fund. In addition, oversight of the administration functions of the EHS needs to be improved. Students are not currently receiving approval from their counselors in order to enroll at the EHS, as required by administrative rule. Finally, the EHS lacks policies and procedures for their staff to efficiently and effectively administer the EHS.

*Utah Code* 53A-15-1008 directs the Legislative Auditor General to conduct a performance audit of the EHS and to develop performance metrics for the following areas:

- Course completion rate
- Number of credits earned
- Cost of providing online courses

The statute also directs us to compare the EHS to other online programs, such as the State Online Education Program (SOEP). Because of the limited amount of time available to complete our audit work and prepare a report for the 2013 General Session, we had to limit the scope of this audit.

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**The Electronic High School was created in 1994 and is accredited by the Northwest Accreditation Commission.**

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The EHS has been in operation since 1994. It is accredited by the Northwest Accreditation Commission. The EHS has 4.5 full-time equivalent (FTE) employees with benefits at USOE; 3.5 FTEs are administrative and one is a teacher. According to the EHS, they have 33 contract teachers, some who also perform some administrative functions. The school operates on an open entry / open exit policy. This means that students can begin in a class any time during the calendar year, provided the class is not full, and they can complete the class at any time.

According to *Utah Code* 53A-15-1002.5, the Electronic High School is created:

- 1) to provide an opportunity for a student who has failed a course to retake the course and earn course credit;
- 2) to allow a student to complete high school graduation requirements and exit high school early;

- 3) to allow a student to take a course online so that the student has greater flexibility in scheduling courses during the regular school day; and
- 4) to allow a home-schooled or private school student in Utah to take a course within the Utah high school core curriculum.

All courses offered by the EHS are divided into quarter-credit classes. Thus, a full-credit course such as Algebra I is divided into four quarter-credit classes; any one of which can be taken through the EHS. Similarly, a half-credit course such as financial literacy is divided into two quarter-credit classes that can be taken independently.

According to the EHS, in order to pass a class and receive credit, a student must complete a final exam administered by a proctor. The student must contact a proctor and arrange to take the exam for the class they are enrolled in. They must have a student ID in order to take the exam. The EHS has over 700 volunteer proctors throughout the State. For traditional students, the EHS sends a course completion certificate to the student's school either by email or via fax upon completion of a class. The certificate shows the class taken, the date the grade was awarded, and the final grade of the class.

Historically, the EHS was directly funded by legislative appropriations; however, the EHS has received its funding through the USOE's initiative program since fiscal year 2011. The base appropriation for the EHS has been \$2 million for many years. However, the Legislature reduced the amount to \$1 million for fiscal year 2013. The USOE deputy superintendent told us that less funding was requested by USOE; as a result, the number of classes offered through the EHS was reduced. The USOE deputy superintendent told us that the EHS needed to focus on the core classes and electives that would be most beneficial to a student's graduation path. The number of credits offered was reduced from 48 to 24.5. The reduction in classes offered also necessitated the reduction in contract teachers from 71 to 33.

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**All final exams at the EHS require a proctor.**

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## Performance Metrics and Financial Information of the Electronic High School

Using EHS data from fiscal years 2011 and 2012, we calculated the performance metrics that we are required to report, as outlined in statute. While the metrics provide information about the EHS, we are concerned that the data provided by the EHS has data integrity issues. Much of the data appears to have been entered inconsistently and some data could not be used in our analysis. However, we sampled 100 students and verified that their home high schools received earned credits from the EHS as recorded in the data. The EHS needs to improve its methods of data collection going forward to ensure that the information is reliable and that program data analysis can be done with confidence.

Despite our reservations about the available data, we believe it provides useful information about the EHS. In the two years we examined, the EHS provided online education to over 36,530 unique students. In addition, using data obtained from the EHS we were able to determine:

- The completion rate of students in the EHS classes is about 60 percent.
- Students earned over 5,600 full credits through the EHS in 2012.
- The average cost per credit earned in 2012 was \$454, but teacher cost per credit varies widely among classes.

Because statute directed us to compare the EHS to other online programs, we obtained data from the State Online Education Program (SOEP). However, SOEP is a new program that has few students compared to the EHS and offers classes ranging from .5 to 1 credit, while the EHS classes are all .25 credit. Furthermore, when students take an SOEP class, funds are transferred from the students' home districts to providers while the EHS students do not impact the funding of their home district. Therefore, caution is needed when comparing the two programs. In addition to obtaining SOEP data, we also contacted the online program from the Granite District, but we were unable to obtain any data.

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**Over 36,530 Utah students have enrolled at the EHS in the last two years.**

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**The class completion rate for students at the EHS for the last two years was 60 percent.**

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## Completion Rate at the EHS is 60 Percent

The first metric that statute directed us to review is the completion rate of students. The overall completion rate of the EHS for fiscal years 2011 and 2012 was 60 percent of those considered enrolled. The EHS allows students to enroll and complete classes any time throughout the year, but the school does not appear to enforce time expectations for completing classes. As discussed later, we also found that completion rates vary widely among courses. However, as an initial overview, Figure 1 shows the completion data for the last two years for all the EHS classes.

**Figure 1. Number of Classes Completed at the Electronic High School for Fiscal Years 2011 and 2012.** The number of classes not completed only includes students considered enrolled because they submitted at least three assignments.

Fiscal Year	Completed Classes	Percent Completed	Classes Not Completed	Percent Not Completed
2011	20,869	60%	13,698	40%
2012	24,358	59	17,119	41
<b>Total</b>	<b>45,227</b>		<b>30,817</b>	

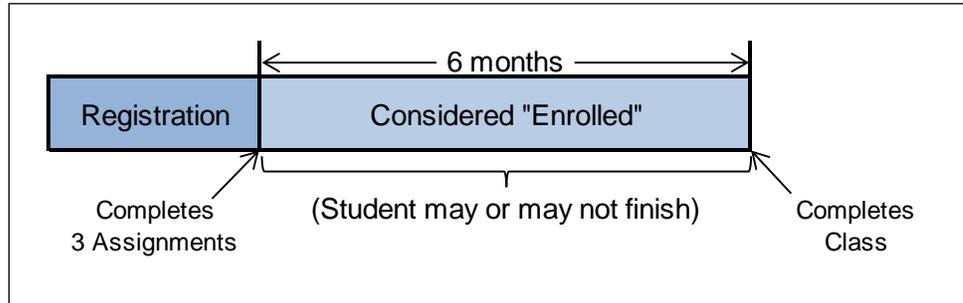
It is concerning that 40 percent of enrolled students are not completing classes, but there may be many reasons for this incompleteness rate. As discussed later in the chapter, one reason may be that school counselors are not involved as they should be when students are registering for EHS classes.

### Completion Data Only Include Students Considered Enrolled.

When determining completion rates, the EHS only counts students who have an “enrolled” status. After students complete three assignments, they are considered enrolled and are included in the EHS data.

**Only enrolled student data is used when completion rates are determined.**

**Figure 2. Student Registration and Enrollment.** According to the EHS, students are not considered enrolled in a class until they complete three assignments. In fiscal years 2011 and 2012, students were allowed up to six months to complete a quarter-credit class.



As indicated in Figure 2, students who register for a class, but then complete fewer than three assignments, are not considered enrolled and therefore are not included in the EHS data.

According to the EHS, about 27 percent of students who registered for classes in fiscal years 2011 and 2012 did not become enrolled. If these students were included as part of the completion rate calculation, the ratios would be much different.

For example, in a group of 1,000 students, approximately 270 would never finish more than two assignments and would not be considered enrolled. Of the remaining 730 students, only 438 students would complete a class, while the other 292 would not. Adding the 270 un-enrolled students to the enrolled students who would not complete their classes reduces the completion rate to from 60 percent to 44 percent. We are not necessarily recommending that this method be used to calculate completion rates; we are just pointing out that there are different means of obtaining outcomes.

**Many Students Take Longer than Six Months to Complete Classes.** For the time period we reviewed (the fiscal year 2011 and 2012), the EHS allowed students up to six months to complete a class. Using the data provided by the EHS, we compared the completion date with the earliest assignment date for all class completions. Figure 3 shows that about 78 percent of students met the required six-month time frame. However, the remaining 22 percent took longer than allowed, including 6 percent that took longer than one year.

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**27 percent of students who register for classes at the EHS do not become enrolled in classes.**

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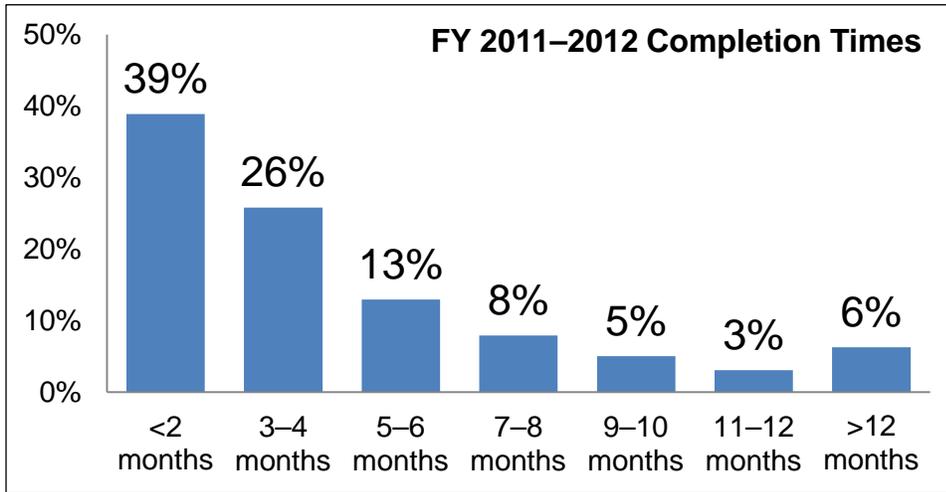


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**Many students take longer than six months to complete a class.**

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**Figure 3. Completion Times for All Classes in Fiscal Years 2011 and 2012.** About 22 percent of students took more than six months to complete a quarter-credit class.



Source: Auditor analysis of EHS enrollment data

For comparison, the SOEP statute stipulates that a provider only receive full payment for half-credit courses that are completed within about six or seven months, or one-credit courses completed within one year. In traditional schools, a quarter-credit class is only allotted a little more than two months of a nine-month school year.

Our limited audit scope did not allow us to examine why some students take so long to complete classes. However, we did learn that a student can stop taking a class and then resume coursework six months later, or even a year later and continue where they left off. There is no policy stating the maximum amount of time a student may be inactive before resuming a class. We did not assess the effect on student learning or school costs of allowing students so much leeway, nor were we able to assess whether students are denied access to classes because other students take so long. However, an audit of the EHS, commissioned by the USOE in 2008, reported that one-third of surveyed students reported being denied access into a course because it was full.

**The EHS Recently Changed the Time Allowed for Completing a Quarter-Credit Class from Six to Four Months.**

This past fall, the EHS reduced the allowed completion time to four months. The principal of the EHS said this was due to the new learning system that they are using at the EHS. However, the EHS

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**EHS reduced the amount of time for students to complete a class in the fall of 2013 to four months, but it still has no enforcement mechanism.**

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does not have an effective control to ensure students complete classes within the four-month time period. If the EHS' goal is for students to complete a class within a certain time frame, the EHS needs to create controls and a monitoring process that it will enforce.

**Completion Rates Vary Among Courses.** In order to better understand the EHS' overall completion rate, we reviewed how it varied among courses. Some classes may be more difficult for students due to subject matter or may not translate well to an online format. Figure 4 shows how completion rates vary for the highest enrollment classes.

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**Completion rates may vary among courses for a variety of reasons.**

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**Figure 4. Completion Rates of the Top 10 Enrollment Courses in Fiscal Year 2012.** Completion rates of classes in the highest enrollment courses range from 21 to 78 percent.

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Course	Percent Completed	Total Enrollment
Financial Literacy (Q1–2)	78%	8,841
Fitness for Life (Q1–2)	69	3,745
Health (Q1–2)	68	3,016
Driver Education (Q1)	63	2,863
Computer Technology (Q1–2)	54	2,687
Citizenship (Q1–2)	63	1,833
English 11 (Q1–4)	53	1,442
English 9 (Q1–4)	21	1,292
Algebra I (Q1–4)	55	1,169
English 10 (Q1–4)	36	1,102

*Source: Auditor analysis of EHS enrollment data*

Of the 10 courses with the highest enrollment, Financial Literacy classes had the highest completion rate at 78 percent while English 9 was just 21 percent. It is interesting that the core elective classes have higher completion rates than required courses in math, English, or science. Perhaps by analyzing why students do not complete classes, the EHS could raise its overall completion rate.

**EHS Compared to Another Online Education Program.**

In contrast to the EHS' open-entry / open-exit policy, other online programs that we contacted follow the standard enrollment time frames as traditional schools. We were able to obtain completion data shown in Figure 5 from the State Online Education Program (SOEP). These rates are based on completion of courses rather than classes (as

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**By analyzing why students do not complete classes, the EHS might identify ways to raise overall completion rates.**

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used in the EHS data). SOEP courses may be worth between .5 and 1.0 credits, whereas the EHS quarter-credit classes are worth .25 credits. While there are differences between the programs, we believe that we are able to compare their completion rates.

**Figure 5. The Number of Online Courses Completed at the State Online Education Program for Fiscal Year 2012.** These totals represent the number of courses (not classes) that students signed up for during fiscal year 2012, and whether the courses were completed or not.

<b>Courses</b>	<b>Count</b>	<b>Percent</b>
Completed	141	78%
Not Completed	38	22
In Progress	1	1
<b>Total</b>	<b>180</b>	<b>100%</b>

*Source: Data provided by SOEP*

Even though the SOEP completion rate is based on courses rather than classes, the data still shows that its completion rate is higher than the EHS' rate. However, since SOEP only started operating in July 2011, only one year of data is available. With the 141 course completions in fiscal year 2012, SOEP students earned 102 full credits. As discussed next, the EHS generated far more credits last year.

### **EHS Students Earned Over 5,600 Credits in 2012**

The second metric that statute directed us to review is the number of credits earned. Credit from the EHS is awarded once a student has completed his or her classwork and successfully passed a final proctored test. Figure 6 shows the overall number of classes that were completed for credit in fiscal years 2011 and 2012. Most classes are completed for credit except for the driver education class.

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**EHS generated over 5,600 credits in fiscal year 2012. In comparison, SOEP generated 102.**

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**Figure 6. The Number of Credits Earned from Online Classes Completed at the Electronic High School for Fiscal Years 2011 and 2012.** These totals represent the number of classes that students completed and the number of full credits earned. Classes can be completed without earning credit.

<b>Fiscal Year</b>	<b>Completed Classes for .25 Credits</b>	<b>Full Credits Earned</b>
2011	19,706	4,926.50
2012	22,761	5,690.25
<b>Total</b>	<b>42,467</b>	<b>10,616.75</b>

**EHS students earned over 10,616 credits from FY 2011 – 2012.**

It is possible for a student to complete a class without earning credit. An example of this is the driver education class. A student who enrolls in this class may not need credit for the class, but they need a certificate verifying that they have taken the class in order to obtain a driver license.

The many credits earned through the EHS show that it is a valuable option for many students. In terms of FTE students, the credits earned in 2012 correspond to a school of about 950 full-time students (based on six credits per FTE student per year). However, since many students take just one or a few classes, many more students benefit. Some students are able to free up time in their schedules for other interests while others may recover credit from failed classes or meet other needs.

Classes with high enrollments and high completion rates generate more credits than other classes. We combined all credits earned in different quarters of the same course to show which courses generate the most credits. Figure 7 is shown to provide information about the types of courses most often taken by the EHS students.

**Financial Literacy is by far the most popular course at the EHS.**

**Figure 7. Top 10 Credit Earning Courses (all Quarters Combined) in Fiscal Year 2012.** The two quarters of financial literacy accounted for nearly one-third of the credits earned in 2012.

Course	Total Credits Earned	Percent of Total Credits
Financial Literacy (Q1–2)	1,724.25	30.3%
Fitness for Life (Q1–2)	648.75	11.4
Health (Q1–2)	512.75	9.0
Computer Technology (Q1–2)	365.50	6.4
Citizenship (Q1–2)	288.25	5.1
English 11 (Q1–4)	190.50	3.3
Algebra I (Q1–4)	161.75	2.8
Algebra II (Q1–4)	154.50	2.7
English 12 (Q1–4)	107.75	1.9
English 10 (Q1–4)	98.25	1.7
All Others	1,438.00	25.3
<b>Total</b>	<b>5,690.25</b>	<b>100.0%</b>

Fitness for Life, Health, Computer Technology and Citizenship make up the next 32 percent. In analyzing the data, it is interesting to note that the classes with the most credit earned are not the math, English, or science classes. The data we analyzed showed that the most popular courses at the EHS are Financial Literacy, Fitness for Life, and Health. Nonetheless, all the courses provided by the EHS fulfill needs of students.

### The EHS Is Funded from a Variety of Sources

The third metric that statute directed us to review is the cost of providing online courses. We found that total funding of the EHS was \$2,508,334 in fiscal year 2011 and \$2,582,506 in fiscal year 2012. In addition to funds specifically appropriated by the Legislature for the EHS, the program draws funds from a number of other sources. While some of the funds are spent at USOE, most are transferred to Davis School District, which acts as a fiscal agent, to pay the EHS contract teachers/staff, and some other costs. The unexpended carry-over balance held by the fiscal agent has increased significantly in recent years to over \$1.4 million at the end of FY 2012. Additionally, we are concerned that the funding that comes from the Driver Education Tax is not being properly accounted for. Lastly, we found that the cost per credit of teaching the EHS courses varies widely.

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**The cost of operating the EHS was about \$2.5 million each of the last two years.**

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**EHS funds come from many different sources.**

**EHS Draws on Many Funding Sources.** As shown in Figure 8, the EHS has several sources of funding. The amount that was appropriated by the Legislature in 2012 for the EHS was 76 percent of the overall budget. Because of the limited time available to complete our work, we could not determine how the decisions to draw on the other sources of funds were made. However, most of the EHS appropriation and all Driver Education Tax funds, as shown in figure 8, were passed through to the fiscal agent. Staff and other USOE costs are spread among the funding sources along with Driver Education Tax. For example, mineral lease funds are used to pay for most of the EHS principal’s salary and benefits.

**Figure 8. Sources and Uses of EHS Funding for Fiscal Years 2011 – 2012.** Funding for the EHS comes from many different sources.

<b>FUND SOURCES</b>	<b>2011</b>	<b>2012</b>
EHS Appropriation	\$ 1,915,583	\$ 1,960,000
Driver Education Tax	360,000	398,616
Federal Mineral Lease	119,000	119,000
Other USOE Funds	113,751	104,890
<b>Total Funds</b>	<b>\$ 2,508,334</b>	<b>\$ 2,582,506</b>

<b>EXPENDITURES</b>	<b>2011</b>	<b>2012</b>
EHS Personnel at USOE	\$ 465,744	\$ 398,860
Other USOE Expenditures	87,586	64,030
Pass Through to Fiscal Agent	1,955,004	2,123,616
<b>Total Expenditures</b>	<b>\$ 2,508,334</b>	<b>\$ 2,586,506</b>

*Source: Auditor analysis of financial information provided by EHS, EHS fiscal agent, and data gathered from State of Utah Data Warehouse Accounting Journal database*

Figure 8 also shows the total expenditures that the EHS has incurred in the last two years. Costs paid through USOE include most administrative costs, and some computer and meeting costs. As mentioned earlier, the EHS employs one full-time teacher who is paid through USOE. The “Pass Through” expenditure category represents the amount that was sent to the Davis School District, which acts as a fiscal agent for the EHS. The EHS has used Davis School District as its fiscal agent since its inception; however, we were unable to determine why it was decided to use Davis School District as its fiscal agent.

**Davis School District is the fiscal agent for the EHS.**

**Davis School District Acts as a Fiscal Agent for the EHS.** The fiscal agent receives funds from the EHS and pays for various items as

directed by the EHS principal. Later, we will discuss some computer hardware expenditures made through the fiscal agent that are inconsistent with established rules.

As shown in Figure 9, the funds received by the fiscal agent include Driver Education Tax funds and other EHS funds. The largest cost category is for EHS teachers, which includes some administrative contract staff and other contract employees. Most other expenditures are for network costs or data processing equipment. In addition, the Davis School District charges a percentage fee to act as the fiscal agent for the EHS; the indirect charge fees were \$43,285 in fiscal year 2011 and \$45,542 in fiscal year 2012.

**Figure 9. Budgeting Information for EHS Transfers to Davis School District (Acting Fiscal Agent) for Fiscal Years 2011 – 2012.** The fiscal agent disburses funds as directed by the EHS principal.

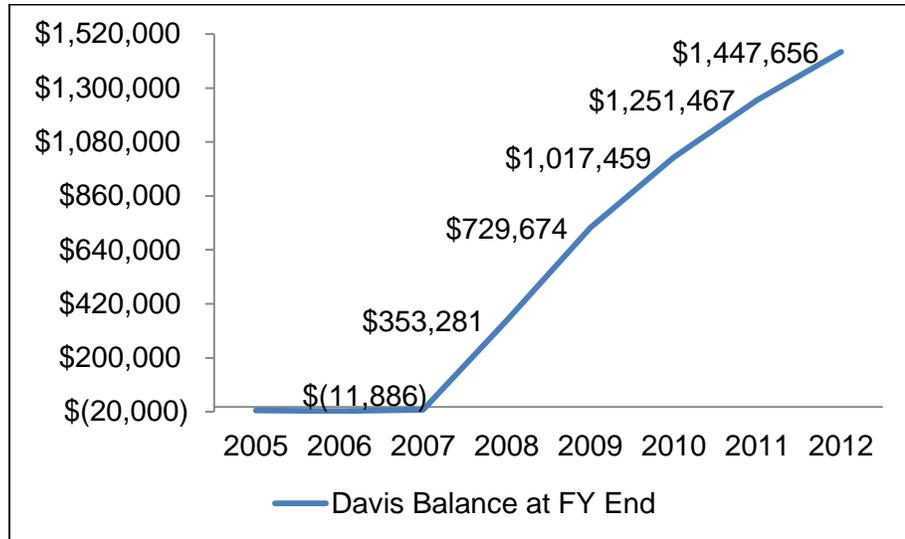
	2011	2012
<b>Beginning Balance</b>	<b>\$ 1,017,459</b>	<b>\$ 1,251,467</b>
<b>FUND SOURCES</b>		
Electronic High School Funds	1,595,004	1,725,000
Driver Education Tax Funds	360,000	398,616
<b>Total Funds</b>	<b>\$1,955,004</b>	<b>\$2,123,616</b>
<b>EXPENDITURES</b>		
EHS Teachers/Staff/Contractors	1,635,805	1,699,907
Other Expenditures	41,906	181,978
Fiscal Agent Cost	43,285	45,542
<b>Total Expenditures</b>	<b>1,720,996</b>	<b>1,927,427</b>
<b>Ending Balance (Carry Over)</b>	<b>\$ 1,251,467</b>	<b>\$ 1,447,656</b>

*Source: Auditor analysis of financial information provided by EHS, EHS fiscal agent, and data gathered from State of Utah Data Warehouse Accounting Journal database*

**Unspent Carry Over Funds Have Grown.** Because of the large ending balances shown in Figure 9, we researched the carry-over amount in prior years. As shown in Figure 10, the year ending balance of unspent funds grew steadily since 2007. The EHS principal relies on the carry over funds as a cushion against unexpected costs increases or funding reductions. As mentioned earlier, the EHS legislative appropriation was reduced for fiscal year 2013, so the balance may help the school avoid further class reductions.

**The EHS has had large carry forward balances.**

**Figure 10. Year-end Carry-Over Balances of EHS Account at Fiscal Agent since 2005.** The unspent balance in the EHS account has grown steadily since 2007.



Source: Auditor analysis of financial information provided by EHS and data gathered from State of Utah Data Warehouse Accounting Journal database

**Driver Education Tax Funding for the EHS is Excessive.**

As shown in Figure 9, the EHS received funding from the Driver Education Tax in fiscal years 2011 and 2012. In some prior years, the EHS did not receive any Driver Education Tax; however, since 2003, the EHS has received \$1,312,283 of these funds. As of January 2013, the EHS has not received any driver education funding for fiscal year 2013. It is unclear how the USOE determined how much of the Driver Education Tax funding to provide the EHS each year.

The Driver Education Tax helps fund driver education programs in school districts and at the EHS. According to *Utah Code 53A-13-202*, the reimbursement amount paid may not exceed:

\$30 per student who has only completed the classroom portion in the school or through the electronic high school during the school year

However, as shown in Figure 11, the amount disbursed to the EHS from this account is not based on the number of class completions.

**EHS has received over \$1.3 million in Driver Education Tax funds since 2003.**

**Figure 11. Calculated and Actual Driver Education Tax Funds Received by EHS fiscal years 2010-2012.** The amounts received by EHS were not based on \$30 per completion of the driver education class.

Fiscal Year	Completions	Calculated Amount*	Actual Amount†
2010	1,163	\$ 34,890	\$ 0
2011	1,439	43,170	360,000
2012	1,796	53,880	398,616
<b>Total</b>	<b>4,398</b>	<b>\$ 131,940</b>	<b>\$ 758,616</b>

*Source: Auditor analysis of data provided by EHS and its fiscal agent*

\* This column reflects funds EHS should have received based on completion counts

† This column reflects actual funds received from the Driver Education Tax Account

Our analysis shows that over the last three fiscal years the EHS was funded \$626,676 in excess of what was actually allowed by statute, according to the number of students completing the classroom portion of the driver education class.

Because of the limited time we had to complete our audit work, and staffing turnover at USOE, we could not identify how USOE determined the amount driver education funding provided to the EHS. However, the new USOE driver education coordinator told us USOE will not disburse additional driver education funding to the EHS until it reviews how the funding amount has been determined and how it has been used.

**Teacher Cost per Course Varies Considerably.** Since we reviewed other performance metrics (completions rate and credits) based on courses, we attempted to do the same for costs. However, a number of factors made it difficult. Still, we were able to compare teacher cost per credit for selected teachers who consistently taught a single course. We found a wide disparity among teachers in different courses.

The teacher cost per credit only depends on how much the teacher is paid and how many students complete the course for credit. The EHS pays contract teachers the same amount per hour. For fiscal year 2013, the standard contract rate is \$26.875 per hour. The one exception is an English teacher who is employed full-time through USOE and costs about twice the contract amount per hour available for teaching after paid time off (vacation, sick, and holiday pay) is factored out.

**EHS has been funded in excess of \$626,676 from the Driver Education Fund.**

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**Some teachers generate many more student course credits per teaching hour than others.**

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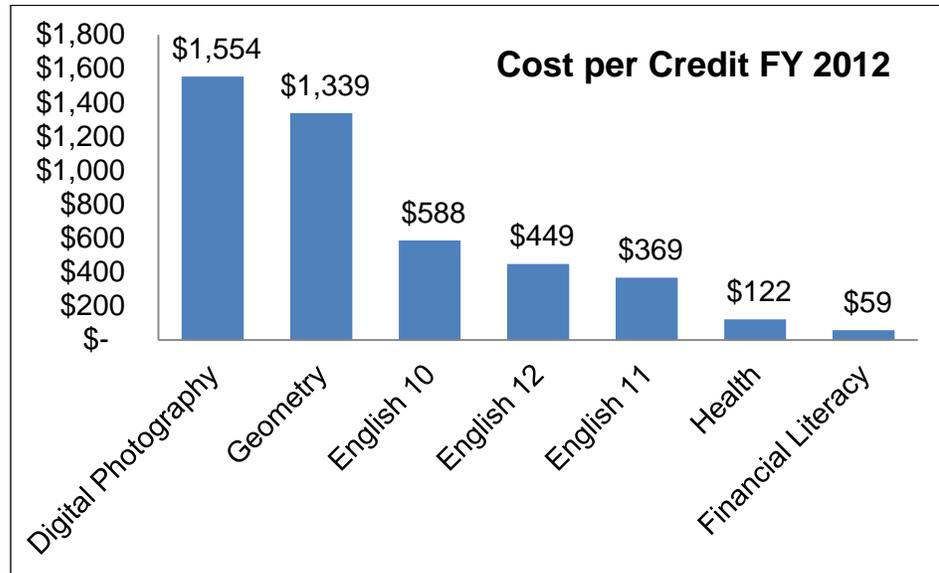
Although most teachers are paid at the same hourly rate, the number of students per teaching hour varies. For example, when determining how many hours of teacher time to contract for, the EHS principal expects some courses to require twice as much teacher time per student than others. Similarly, students tend to take longer to complete some courses than others; furthermore, as indicated earlier in Figure 4, some classes have much higher completion rates than others.

While we were not able to isolate each of the factors mentioned above, we compared the cost per credit generated for selected teachers. Because the open entry/open exit system makes it difficult to align costs and credits to a specific time period, we selected only those teachers who taught the same course in fiscal years 2011, 2012, and 2013. Figure 11 shows the cost per credit for selected teachers who taught a single course in 2012. Limiting the data shown to continuing teachers makes it less likely that teaching changes affect the information.

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**Figure 11. Teacher Cost per Credit for Selected Teachers in Fiscal Year 2012.** Some courses cost much more than others. No overhead or administrative costs are included in the data shown.

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Source: Auditor analysis of data provided by EHS

The cost per credit amounts shown above only include the teacher cost without any administrative overhead. However, teacher costs are the biggest factor determining the cost of classes and, it appears that teacher costs account for 50-60 percent of the EHS' total costs.

Certainly, analyzing the costs of different courses is an important part of running a cost effective program. While the data we analyzed is only for fiscal year 2012, the EHS principal reports that teacher cost and performance were considered in recent program changes that resulted in the number of teachers being reduced. However, the EHS did not have documentation of its decision-making process for us to review.

## **Oversight of Electronic High School Needs Improvement**

Oversight of the EHS needs to be improved. Fiscal oversight of the funds that are disbursed through the fiscal agent is deficient. The EHS lacks internal controls and monitoring for purchases made from funds that reside at their fiscal agent. Some of the purchases from the fiscal agent are in violation of administrative rule. In addition, no expenditures from the fiscal agent go through established approval processes that are used at the USOE. The EHS has purchased equipment for contract workers, which is against contracts that were in place and circumvents established USOE purchasing processes. Oversight also needs to be improved over the funds that the EHS receives from the Driver Education Tax Fund. There is no oversight for the spending or accounting of these funds.

Oversight of the administration functions of the EHS needs to be improved. Students are not currently receiving counselor approval to enroll at the EHS, as required by administrative rules. Additionally, the EHS lacks policies and procedures for their staff to efficiently and effectively administer the EHS. The EHS needs to create policies and procedures that are followed by their staff, which would enable them to administer and enforce policies consistently for the entire program.

### **Fiscal Oversight Needs to Be Improved**

The EHS does not have proper internal controls for the funds that are spent through their fiscal agent. Oversight of the EHS needs to be improved to ensure the EHS expenditures are in accordance with internal purchasing controls. The EHS has two funds that it uses for purchases needed for the operation of the EHS. One fund resides within the USOE and the other fund resides at their fiscal agent,

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**Oversight of the EHS' financials and administration needs improvement.**

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**EHS violated administrative rule for purchases made from their fiscal agent.**

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which is the Davis School District. It should be noted that driver education funding is also kept at the fiscal agent, as was discussed earlier in the report.

According to *Administrative Rule R277-725-3(B)*, “The Utah State Office of Education may designate a fiscal agent to pay teachers' salaries, course development fees, software licensing fees, and accreditation dues.” The rule is very specific in regards to the items that are allowed to be purchased with funds from the fiscal agent. The EHS has been purchasing items through the fiscal agent that violate administrative rule, such as computer hardware and other contract employees (outside of teaching and course development). There is no oversight from EHS or USOE for purchases made through the fiscal agent.

**Purchases Made Through the Fiscal Agent Lack Controls.** The EHS process for purchases made through their fiscal agent does not follow best practices for internal controls. When using funds from the fiscal agent, the EHS administrative staff does not go through the normal approval process that is used by the USOE. This is because the USOE does not control the expenditures of these funds since they are in an account that is managed by the fiscal agent. In order to use the funds, the EHS administrative staff simply sends an email to the fiscal agent along with a quote for the purchase and the fiscal agent places the order. There is no approval process when funds are used from the fiscal agent. By using the fiscal agent, whether intentionally or not, the EHS has been circumventing USOE internal controls. Even though some of the purchases may have been verbally approved, the EHS does not have documentation of the approvals.

**Fiscal Agent Disbursed EHS Funds in Error.** The monitoring and reviewing of the EHS expenditures from the fiscal agent is not occurring. Because the EHS has not been reviewing the expenditures from their fiscal agent, \$26,701 from the fund was mistakenly spent on non-EHS expenditures. Davis School District is a fiscal agent for another entity and inadvertently used EHS funds to pay five employees who work for the other entity. We had the EHS staff review their expenses for fiscal years 2011 - 2013 and they found payments to five people they did not recognize. The EHS contacted Davis School District about these expenses and it was determined that there was a mistake. Davis School District has since credited the EHS'

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**EHS' purchase from their fiscal agent lack internal controls.**

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**Monitoring of expenditures from the fiscal agent is lacking.**

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account. We did not determine if there were more discrepancies before 2011.

As discussed later, monitoring of expenditures is an important internal control. Davis School District indicated that the EHS is supposed to review all expenditures made from this account. The EHS has not been reviewing the expenditures from this account. In addition, the EHS does not have Davis School District report to them with a monthly expense report. The detailed report is sent to the EHS only when the EHS requests a copy. We are concerned that this is not done on a set interval, whether it is monthly or bi-weekly.

**Equipment Purchased for Contract Employees Is Concerning.** Oversight of purchases made by the EHS needs to be improved. The EHS spent \$53,336 in unjustified purchases for contract employees. There are 33 EHS teachers who are under contract, and the EHS purchased equipment for all of them through its fiscal agent. In fiscal year 2011, the EHS spent \$5,436 on iPads and accessories for six of its driver education contract teachers. In fiscal year 2012, the EHS spent \$47,899 on iPads and accessories for the remaining contract teachers.

Figure 12 shows the equipment that was purchased for these contract workers. The contract that the teachers signed states the following:

[Contract teachers] shall provide all tools, equipment and supplies required to perform the services under this Agreement, including computer, software, and high speed access to the internet.

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**EHS violated a contract by purchasing equipment for contract employees.**

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**Figure 12. iPad and Related Purchases in Fiscal Years 2011 and 2012.** Thirty- three contract teachers received equipment. EHS administrative staff (paid through USOE) received the remaining equipment.

Description	Units	Unit Price	Total
Apple iPad: Gen 3, 64GB, Verizon 4G	34	\$ 829	\$ 28,186
Apple iPad: Gen 1, 64 GB	6	699	4,194
Accessories for 6 iPads Gen 1	6	207	1,241
iTunes Gift Card	68	50	3,400
AppleCare+ for iPad	34	99	3,366
Incase Compact Backpack	34	80	2,720
Apple In-Ear Headphones	34	79	2,686
Apple Wireless Keyboard	34	69	2,346
Home/Car Charger	34	40	1,358
Apple iPad Smart Cover	34	39	1,326
Apple iPad Camera Connection Kit	34	29	986
Keyboard Protector	34	25	848
Cleaning Kit	34	20	678
<b>Total</b>			<b>\$53,336</b>

*Source: Auditor summary of data provided by EHS fiscal agent (Davis School District)*

**The EHS did not have approval for the purchases made for contract workers.**

The principal violated the contract by purchasing the equipment for the contract employees. Even though EHS has one teacher who is a full-time employee, we are including the purchases made for this employee as well since the purchases did not go through the USOE approval process and also violated administrative rule. According to the principal, she was not aware that she should not purchase the equipment for contract workers. The principal also violated administrative rule by using funds from the fiscal agent for items that were not allowed to be purchased with these funds. Additionally, since these purchases were made through the fiscal agent they did not go through the normal USOE approval process. The USOE approval process usually involves more than three or four approvals within the USOE before an item may be purchased.

Documentation does not exist for the approval of these purchases. Oversight of all purchases made by the EHS needs to be included in the USOE purchasing process to ensure that approval is given for all funds that the EHS is responsible for.

**Driver Education Funds Needs Oversight.** Oversight is also needed for the allocation and use of funds the EHS receives from the

Driver Education Tax Account. As discussed earlier in this report, the EHS has been funded \$1.3 million earmarked for driver education since 2003. The person currently in charge of driver education at the USOE did not know why the EHS has received this much funding. The EHS was unable to provide us with documentation.

Additionally, there has been no oversight or guidance on how the EHS should be spending these funds. Since the driver education funds were combined with other funds at the fiscal agent, there is no documentation to show that the funds were used specifically for driver education as required by law. USOE needs to provide oversight and create policies and procedures for the EHS to follow to ensure that these funds are spent appropriately and can be accounted for.

**Internal Controls Are Needed at the EHS.** According to internal control best practices, segregation of duties prevents one employee from controlling all aspects of a disbursement. Disbursements of funds should include the following steps:

- Processing – initiating a payment
- Approving – verifying the disbursement and approving payment
- Receiving – taking custody of items/services and verifying that everything that was paid for was received
- Monitoring – periodically reviewing expenditures and comparing them to budgets to assess appropriateness of disbursements.

None of the controls mentioned above have been correctly followed or implemented for the EHS funds spent through the fiscal agent. Therefore, we question why USOE allows EHS the use of a fiscal agent. We recommend that the EHS no longer be allowed to use a fiscal agent for purchases and that all funds be controlled by the USOE. Placing all funds that are used by the EHS under USOE will help to ensure that proper internal controls are being followed and enforced.

### **Management Oversight Needs to Be Improved**

EHS administrative oversight needs improvement. Students are not currently receiving counselor approval in order to enroll at the EHS, as required by administrative rule. Additionally, the EHS lacks

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**Driver's Education funds are comingled with other funds at the fiscal agent.**

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**Internal controls are lacking at the EHS for funds used at the fiscal agent.**

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**Administrative rule requires students to go through their counselor in order to register at the EHS.**

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policies and procedures that will enable staff to efficiently and effectively administer the EHS.

**School Counselors Should Be Required.** Students are not being required to receive counselor approval in order to register for EHS classes. According to *Administrative Rule R277-725-5(C)*, “A student may register for electronic high school course(s) following approval from the student's residence area secondary school counselor, consistent with the student’s SEP/SEOP [student education/occupation plan].”

Having students receive counselor approval in order to register for the EHS classes could help to ensure that students are registering for classes that they need in order to graduate. Furthermore, involving school counselors may help reduce the chance of a student signing up for an incorrect class. Additionally, students may be more committed to complete a class if their schools are more involved in the process. The counselors we talked to indicated that it would be beneficial for them to know when their students enroll EHS classes.

Both the State Online Education Program and the Utah Students Connect Online Program (which consists of seven different school districts) require their students to register for online classes through their school counselor. Having students register through their counselor would ensure that students are registering for the correct classes and that registration information is submitted correctly. It would also enable the EHS to capture and analyze this data, which would help the EHS determine why students are enrolling in classes.

The EHS does not have a process in place that allows it to collect data that gives the EHS the reasons why a student is registering in a class. Students who register for classes at the EHS can do it for the following three reasons:

- Original credit
- Credit recovery
- Credit acceleration

Students are not required to report the reason why they are registering for an EHS class. This requirement would help ensure that this data is collected, and having this information will help the EHS to know why students are completing their classes. Furthermore, this data would

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**Other online programs require students to go through their counselor in order to register.**

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help the EHS to better understand how it is fulfilling its statutory purposes. Since the registration process is completed online, the EHS can make this data request a required field that must be filled out before one can be registered for a class. Having the counselor submit the enrollment information for the student would also increase the likelihood that information is entered correctly into the system.

Most schools find out that a student has taken a class from the EHS when they receive a class certificate showing that the student received credit for the class. We verified that schools are receiving the certificates. We selected 10 students from 10 different high schools from the Davis and Granite school districts. By checking with the schools' registrars, we were also able to determine if the classes were taken for original credit or credit recovery. Figure 13 illustrates the results from 100 students selected from the two different school districts.

**Figure 13. Verification of Classes Taken by Students at the EHS.** These totals represent classes taken by 100 students who took EHS classes for original credit, credit recovery. The total count equals 166 because some students took more than one class.

Reason for Taking EHS Classes	Count	Percent
Original Credit	140	84%
Credit Recovery	26	16
<b>Total</b>	<b>166</b>	

*Source: Auditor summary of data provided by schools in Davis and Granite Districts*

**Policies and Procedures Are Needed.** The EHS lacks policies and procedures to help direct the administration of the program. Policies and procedures need to be created to provide guidance and acceptable practices for the EHS staff. Following established policies and procedures will enable EHS employees to consistently administer the program.

The current principal of the EHS has been the principal since 2007, and many of the management decisions are left up to her. We are concerned that this program is largely dependent on the principal of the EHS.

Creating policies and procedures that are consistent with statutory provisions would help the EHS administer its program. The EHS needs to have polices for the administration of its finances. The EHS

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**EHS does not have a process for collecting data to determine why students are registering for classes.**

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**Policies and procedures are lacking at the EHS.**

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lacks policies and procedures for the purchases it made through its fiscal agent while unknowingly breaking administrative rules. This also led to purchases that were outside of the established USOE approval process.

The EHS also needs policies and procedures to help with the administration of its school. For example, the current practice is that all active students are counted to determine the current class sizes. There is not a policy that defines what an active student is, or a procedure that provides detail on how students should be counted, in order to obtain an accurate student count. This procedure is important because the class totals need to be determined so the EHS administrators will know whether or not they can enroll a student into a class. Approved policies and procedures will allow employees at the EHS to consistently administer the program in order to fulfill its mission. In addition, having and following approved policies and procedures will help ensure that state funds are appropriately used.

## **Recommendations**

1. We recommend that USOE review the process used to disburse Driver Education Tax funds to ensure that it complies with statute.
2. We recommend that USOE discontinue the use of a fiscal agent for the EHS' finances.
3. We recommend that the EHS create formal written policies and procedures to guide staff that are consistent with statutory provisions and State Board of Education policy for the EHS program.
4. We recommend the EHS follow administrative rule as written and require students to go through their school counselor in order to register for EHS classes. If the State Board of Education amends the rule, we recommend that EHS at least establish a mechanism to notify school counselors when students from their schools register for EHS classes.

## **Agency Response**

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February 1, 2013

John M. Schaff, Auditor General  
Office of the Legislative Auditor General  
Utah State Capitol Complex  
West Office Building, Suite W315  
P.O. Box 143315  
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

Thank you for the opportunity to review *A Limited Review of the Electronic High School* (Report No. 2013-C). We appreciate the thorough and amicable way in which this review was conducted and the recommendations provided.

We agree and support the recommendations. We have already begun the process to terminate the fiscal agent agreement and bring Electronic High School (EHS) funds into the Utah State Office of Education accounting system. By the end of February 2013, we anticipate transitioning the EHS teachers into the USOE payroll system and all other expenditures will be processed through the USOE accounting system. We believe this action will ensure EHS transactions follow policies and procedures and a system of internal controls. A reconciliation of funds transferred to EHS for the driver's education program is nearly complete. Any driver's education funds not expended for driver's education EHS classes will be reimbursed to the driver's education program. In the future, driver's education funds will be requested to support only EHS driver's education classes and will be tracked separately in the USOE accounting system.

We have also begun exploring ways to ensure EHS data and credits are tracked and maintained in a more consistent and permanent manner. We believe this will enable EHS to improve the registration and credit reporting process going forward.

We will use this review and its recommendations as a starting point to improve and modernize the EHS program and ensure proper internal controls and monitoring of state funds.

Sincerely,



Martell Menlove, Ph.D.  
State Superintendent of Public Instruction