

21ST CENTURY CYBER CHARTER SCHOOL

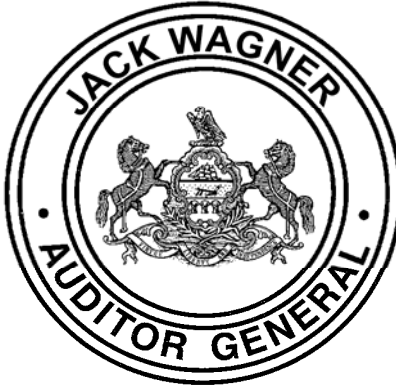
CHESTER COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

WITH FINDING, OBSERVATION AND RECOMMENDATIONS

THROUGH JANUARY 23, 2008



21ST CENTURY CYBER CHARTER SCHOOL
CHESTER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004,
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21ST CENTURY CYBER CHARTER SCHOOL
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dr. Thomas Newcome, Board Chairperson
21st Century Cyber Charter School
455 Boot Road
Downingtown, Pennsylvania 19335

Dear Governor Rendell and Dr. Newcome:

We have conducted a performance audit of the 21st Century Cyber Charter School for the years ended June 30, 2006, 2005 and 2004, and in certain areas extending beyond June 30, 2006. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

To plan and perform our audit of the 21st Century Cyber Charter School, we considered the school's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls, we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurances on the effectiveness of the school's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

The results of our tests indicated that, in all significant respects, the 21st Century Cyber Charter School was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the following finding. We also identified internal control weaknesses as discussed in the observation.

Independent Auditor's Report (Continued)

The finding and observation are discussed in detail in the Conclusion section of this report:

Finding – In Violation of the Public Official and Employee Ethics Act, Certain Charter School Personnel Failed to File Statements of Financial Interests at Some Time During the Audit Period

Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses

We believe that our recommendations, if implemented by the cyber charter school, will improve the internal control weaknesses identified and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Sincerely,

January 23, 2008

/s/
JACK WAGNER
Auditor General

cc: Dr. Alan Elko, Board Vice-Chairperson
Ms. Lindi Steczak, Board Secretary
Dr. Barry Galasso, Board of Trustees
Dr. Joseph O'Brien, Board of Trustees
Mr. Christopher McGinley, Board of Trustees
Mr. Jerry Shiveley, Board of Trustees
Dr. Francis Barnes, Board of Trustees
Mr. Mark Klein, Esquire, Board of Trustees
Dr. Anthony Costello, Board of Trustees
Mr. Jon Marsh, Chief Executive Officer

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
HISTORY OF CHARTER SCHOOLS IN PENNSYLVANIA

History of Charter Schools in Pennsylvania

Pennsylvania's charter schools were established by the Charter School Law (Law), enacted through Act 22 of 1997. In the preamble of the Law, the General Assembly stated its intent to provide teachers, parents, pupils, and community members with the opportunity to establish schools that were independent of the existing school district structure.¹ In addition, the preamble provides that charter schools are intended to, among other things, improve pupil learning, encourage the use of different and innovative teaching methods, and offer parents and students expanded educational choices.²

The Law permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.³ Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the school will be established,⁴ and that board must hold at least one public hearing before approving or rejecting the application.⁵ If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,⁶ which is comprised of the Secretary of Education and six members appointed by the Governor.⁷

Initial charters are valid for a period of no less than three years and no more than five years.⁸ After that, the local school board can choose to renew a school's charter every five years, based on a variety of information, such as the charter school's most recent annual report, financial audits and standardized test scores. The board can immediately revoke a charter if the school has endangered the health and welfare of its students and/or faculty. However under those circumstances, the board must hold a public hearing on the issue before it makes its final decision.⁹

¹ 24 P.S. § 17-1702-A.

² Id.

³ 24 P.S. § 17-1717-A (a).

⁴ 24 P.S. § 17-1717-A (c).

⁵ 24 P.S. § 17-1717-A (d).

⁶ 24 P.S. § 17-1717-A (f).

⁷ 24 P.S. § 17-1721-A (a).

⁸ 24 P.S. § 17-1720-A.

⁹ Pennsylvania Department of Education, Basic Education Circular, "Charter Schools," Issued 10/1/2004.

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PERFORMANCE AUDIT REPORT
HISTORY OF CHARTER SCHOOLS IN PENNSYLVANIA

History of Charter Schools in Pennsylvania (Continued)

Act 88 of 2002 amended the Law to allow for the establishment of cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means.¹⁰ Unlike charter schools, cyber charter schools must submit their application to the Department of Education (DE), which determines whether the application for charter should be granted or denied. However, if DE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board. In addition, DE is responsible for renewing and revoking the charters of cyber charter schools.¹¹ There are currently 125 charter schools operating in Pennsylvania, 11 of which are cyber charter schools.¹² According to DE, nearly 50,000 children are enrolled in these schools.¹³

¹⁰ 24 P.S. § 17-1703-A.

¹¹ 24 P.S. § 17-1745-A (a), (f).

¹² Information obtained from the Department of Education as of October 12, 2007.

¹³ Department of Education Web site at http://www.pde.state.pa.us/charter_schools/site/default.asp.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The 21st Century Cyber Charter School, located in Chester County, opened in September of 2001. The 21st Century Cyber Charter School was originally chartered on September 1, 2001, for a period of five years by the West Chester Area School District. The administrative offices are located at 455 Boot Road, Downingtown, Pennsylvania.

According to the cyber charter school's mission statement, the 21st Century Cyber Charter School seeks to provide students, for whom an asynchronous environment is an appropriate educational setting and who attend the school at least half time, with an individualized learning program utilizing the latest information and communications technology. The basis for all learning plans is to maximize student achievement of the Pennsylvania Academic Standards while developing higher order thinking and complex problem-solving skills. The 21st Century Cyber Charter School will assure students master essential content and skills while preparing them for their future goals.

During the year ended June 30, 2006, the 21st Century Cyber Charter School provided educational services to 424 students from 218 sending school districts through the employment of 3 administrators, 17 teachers, and 14 full-time and part-time support personnel. The cyber charter school also provided educational services to 311 students during the 2004-05 school year, and 346 students during the 2003-04 school year.

Expenditures for the school years¹⁴ 2005-06, 2004-05 and 2003-04 were \$3,140,891, \$2,617,019 and \$2,396,183, respectively. Revenues of \$3,556,793, \$2,652,088 and \$2,737,047 supporting these expenditures were derived from local and state sources for the 2005-06, 2004-05 and 2003-04 school years, respectively (see Summary of Charter School Revenue, page 7). State revenue was received in the form of reimbursements health services, Social Security and Medicare Taxes, and retirement obligations (see Appendix II - Schedule of State Revenue, page 22).

¹⁴ A "school year" is synonymous to a "fiscal year" and covers the time period from July 1st to June 30th.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND (Continued)

Background (Continued)

The cyber charter school derives the majority of its operating revenue from the school districts whose students attend the cyber charter school. These sending school districts are required by Section 1725-A of the Charter School Law¹⁵ and instructions from the Department of Education to provide the cyber charter school with a calculation of allowable expenditures referred to as “selected expenditures” for non-special education students and special education students,¹⁶ based upon the school districts’ general fund budgeted expenditures and average daily membership (ADM) for the immediately preceding school year. (ADM refers to the number of days each student is enrolled at the cyber charter school or school district over the course of the school year. This average is used to calculate various subsidies and reimbursements for school districts and cyber charter schools). This funding calculation is to be paid to the cyber charter school by the sending school districts, based on the actual ADM of their students who attend the cyber charter school.

¹⁵ 24 P.S. § 17-1725-A.

¹⁶ Charter schools receive additional funding for special education students as calculated on the basis of 24 P.S. § 17-1725-A(a)(3).

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND (Continued)

SUMMARY OF CHARTER SCHOOL REVENUE

[UNAUDITED]

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------------------------------|--------------------|--------------------|--------------------|
| <u>CHARTER SCHOOL REVENUES</u> | | | |
| Local Revenue* | \$3,493,374 | \$2,598,375 | \$2,686,851 |
| State Revenue | <u>63,419</u> | <u>53,713</u> | <u>50,196</u> |
| <u>TOTAL REVENUE</u> | <u>\$3,556,793</u> | <u>\$2,652,088</u> | <u>\$2,737,047</u> |

*Local revenue represents both local and state taxpayer dollars paid through the sending school district.

Note: Refer to Appendices for support schedules of all dollar figures.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

The objective of our audit was to determine if the 21st Century Cyber Charter School complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures pertaining to cyber charter schools in Pennsylvania. Some examples of the objectives included in our audit of the 21st Century Cyber Charter School were:

- to determine overall compliance with the Public School Code of 1949¹⁷ (Code) and the Charter School Law (Law);¹⁸
- to determine whether at least 75 percent of the cyber charter school's professional staff members, including teachers and administrators, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Law;¹⁹
- to determine whether the cyber charter school complied with Sections 1109 and 1209 of the Code,²⁰ to which cyber charter schools are made subject by Section 1724-A(b) of the Law,²¹ requiring that noncertified professional employees of the cyber charter school present evidence that they are: 1) at least 18 years of age, 2) a U.S. citizen, and 3) certified by a licensed Pennsylvania physician to be neither mentally nor physically disqualified from successful performance of the duties of a professional employee of the cyber charter school;
- to determine whether the cyber charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;²²
- to verify membership numbers reported to the Department of Education (DE) and determine whether average daily membership and tuition billings were accurate;

¹⁷ 24 P.S. § 1-101 *et seq.*

¹⁸ 24 P.S. § 17-1701-A *et seq.*

¹⁹ 24 P.S. § 17-1724-A(a).

²⁰ 24 P.S. §§ 11-1109 and 12-1209.

²¹ 24 P.S. § 17-1724-A(b).

²² 24 P.S. § 17-1715-A(9).

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE (Continued)

- to determine whether the cyber charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Code²³ and Chapter 11 of the State Board of Education Regulations²⁴ (Regulations) and, if not, whether the cyber charter school removed days in excess of ten consecutive unexcused absences from the school's reported membership totals pursuant to Section 11.24 of the Regulations;²⁵
- to determine whether each of the cyber charter school's trustees and administrators and each of the school board members of the host school district complied with the Code and the Public Official and Employee Ethics Act²⁶ (Ethics Act) by filing their Statement of Financial Interests Forms and to determine whether any violations of the Ethics Act occurred or any potential conflicts of interests exist;
- to determine whether the cyber charter school is in compliance with Section 1724-A(c) of the Law²⁷ requiring that all employees of the cyber charter school be enrolled in the Public School Employees' Retirement System at the time of filing the cyber charter school application unless the board of trustees has a retirement plan that covers the employees or the employees are enrolled in another retirement program; and
- to conclude on the cyber charter school's progress in achieving its goals and the effectiveness of the monitoring and oversight procedures of the chartering school district and DE.

Unless otherwise indicated, the scope of our audit covered the years ended June 30, 2006, 2005 and 2004.

²³ 24 P.S. § 13-1327 (Charter schools are subject to the compulsory school attendance requirements of the Code pursuant to Section 17-1732-A(a) of the Law, 24 P.S. § 17-1732-A(a).)

²⁴ 22 Pa. Code, Chapter 11.

²⁵ 22 Pa. Code § 11.24.

²⁶ 65 Pa.C.S. § 1101 *et seq.*

²⁷ 24 P.S. § 17-1724-A(c).

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit required by the Public School Code.

The proper administration of a cyber charter school requires its board of trustees to establish and maintain internal controls to provide reasonable assurances that specific cyber charter school objectives will be achieved. Cyber charter school trustees are responsible for the adoption and use of policies and procedures that promote the economical and efficient execution of its assigned duties and responsibilities. In completing our audit, we obtained an understanding of the cyber charter school's internal controls as they relate to the cyber charter school's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION

The results of our tests indicate that, with respect to the audit objectives and items tested, the 21st Century Cyber Charter School complied with some of the applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. For example, we determined that 21st Century Cyber Charter School met the following provisions:

- the cyber charter school demonstrated that at least 75 percent of the cyber charter school’s professional staff members, including administrators and teachers, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Law;²⁸
- the charter school demonstrated compliance with Sections 1109 and 1209 of the Code,²⁹ to which charter schools are made subject by Section 1724-A(b) of the Law,³⁰ requiring that noncertified professional employees of the charter school present evidence that they are: 1) at least 18 years of age, 2) a U.S. citizen, and 3) certified by a licensed Pennsylvania physician to be neither mentally nor physically disqualified from successful performance of the duties of a professional employee of the charter school;
- the cyber charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;³¹
- the cyber charter school validated membership numbers reported to the Department of Education and that average daily membership and tuition billings were accurate;
- the cyber charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code³² and Chapter 11 of the State Board of Education Regulations;³³

²⁸ 24 P.S. § 17-1724-A(a).

²⁹ 24 P.S. §§ 11-1109 and 12-1209.

³⁰ 24 P.S. § 17-1724-A(b).

³¹ 24 P.S. § 17-1715-A(9).

³² 24 P.S. § 13-1327; Please note that charter schools are subject to the compulsory school attendance requirements of the Public School Code pursuant to Section 17-1732-A(a) of the Law, 24 P.S. § 17-1732-A(a).

³³ 22 Pa. Code, Chapter 11.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION (Continued)

- the cyber charter school is in compliance with Section 1724-A(c) of the Law³⁴ requiring that all employees be enrolled in the Public School Employees' Retirement System; and
- the cyber charter school reported in its annual report that it was successful in meeting all of its annual measurable goals.

However, we determined that the 21st Century Cyber Charter School did not comply with other applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, as noted in the finding listed below. Additionally, we identified an internal control weakness as noted in the observation included in this report. The finding, observation and recommendations were reviewed with representatives of the 21st Century Cyber Charter School, and their comments have been included in this report.

Finding – In Violation of the Public Official and Employee Ethics Act, Certain Charter School Personnel Failed to File Statements of Financial Interests at Some Time During the Audit Period

Our audit of charter school records of Statements of Financial Interests for the calendar years ended December 31, 2006, 2005, 2004 and 2003, found that various board members failed to file Statements of Financial Interests during our audit period, as follows:

- for 2006, three board members;
- for 2005, five board members and the board president;
- for 2004, five board members; and
- for 2003, three board members.

Of the Statements of Financial Interests forms that were on file for our audit period, we found no evidence of potential conflicts of interests.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act), requires all candidates for public office, public officials and certain public employees to annually complete a Statement of Financial Interests for the preceding calendar year, no later than May 1st of each year they hold their positions and the year after leaving such positions.³⁵

³⁴ 24 P.S. § 17-1724-A(c).

³⁵ 65 Pa.C.S. § 1101.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, a board members' failure to file the Statement of Financial Interests constitutes a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, 65 Pa.C.S. § 1104(d), which pertains to the failure to file the required Statement of Financial Interests, provides, in pertinent part, as follows:

No public official shall be allowed to take the oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .

Section 1109(b), 65 Pa.C.S. § 1109(b) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.

Section 1109(f), 65 Pa.C.S. § 1109(f) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

Recommendations

The board of trustees should:

- seek the advice of its solicitor in regard to the board of trustees' responsibility when administrators and members fail to file Statements of Financial Interests; and
- develop procedures to ensure that all individuals required to file Statements of Financial Interests do so in compliance with the Ethics Act.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Response of Management

Management provided the following response agreeing with the finding:

The 21st Century Cyber Charter School Board (21CCCS) is made up of the Bucks, Chester, Delaware, Montgomery County Intermediate Unit Executive Directors and two Superintendents from each county. Due to the makeup of the 21CCCS Board of Trustees, a higher turnover of officials occurs each year than in the traditional school board setting. This sometimes serves as a challenge when collecting the Statement of Financial Interest Forms. Past officials often leave the district they were previously employed and some leave the state.

To ensure that 21CCCS complies with the Public Official and Employee Ethics Act, a procedure has been developed for school staff to follow in an effort to collect each Statement of Financial Form needed. The procedure clearly and concisely maps out the process of delivery and collection of the forms.

Administration reviewed all audited forms and was pleased to find that no active 21CCCS Official or Employee, in their current role, neglected to return their Statement of Financial Interest Form to 21CCCS Administration.

Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses

The 21st Century Cyber Charter School uses a Student Information System built in-house for its critical student accounting applications (membership and attendance). An outside information technology (IT) vendor has remote access into the school's network servers. Additionally, the school's entire computer system, including all its data and the above software are maintained on Chester County Intermediate Unit #24's (IU) servers. The school has access into the IU's network servers, with the IU providing system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the school's data could occur and not be detected because the school was not able to provide supporting evidence that they are adequately monitoring vendor activity in their system. However, since the school has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

Reliance on manual compensating controls becomes increasingly problematic if the school would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the school's membership information and result in the school not receiving the funds to which it was entitled from the sending school districts of residence and/or the state.

During our review, we found the school had the following weaknesses as of January 23, 2008, over vendor access to the school's system:

1. The school does not have evidence to support they are generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and school employees). There is no evidence to support that the school is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system;
2. The school does not have a formal contract with the vendor that provides maintenance to the purchased software;
3. The contract with the IU did not contain a non-disclosure agreement for the school's proprietary information and the contract was not reviewed by the school's legal counsel;
4. The school does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner;
5. The school was unable to provide evidence that they require written authorization for adding, deleting, or changing a userID;
6. The school does not require written authorization prior to the updating/upgrading of key applications or changing user data;
7. The school does not have current IT policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor or the IU to sign the school's Acceptable Use Policy;

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

8. The school's Acceptable Use Policy does not include provisions for privacy (e.g., monitoring of electronic mail, access to files), access (acceptable use guidelines for user), accountability (responsibilities of users, auditing, incident handling), authentication (e.g., password security and syntax requirements), and violations/incidents (what is to be reported and to whom);
9. The school does not have any current policies or procedures in place to analyze the impact of proposed program changes in relation to other business-critical functions; and
10. The school has certain weaknesses in logical access controls. We noted that the school's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that include alpha, numeric and special characters; and to maintain a password history (i.e., approximately ten passwords).

Recommendations

We recommend the school implement the following recommendations to correct vulnerabilities identified in this observation:

1. The school should generate monitoring reports of the vendor and employee remote access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The school should review these reports (including firewall reports generated by the IU) to determine that the access was appropriate and that data was not improperly altered. The school should also ensure it is maintaining evidence to support this monitoring and review;
2. The school should develop an agreement with the vendor to provide IT services related to its critical student accounting applications (membership and attendance). The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors;

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

3. The contract with the IU should contain a non-disclosure agreement for the school's proprietary information and the school's legal counsel should review any major contract before the school enters into an agreement;
4. The school should maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner;
5. The school should develop policies and procedures to require written authorization when adding, deleting, or changing a userID;
6. The upgrades/updates to the school's system should be made only after receipt of written authorization from appropriate school officials;
7. The school should establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the IU and vendor sign this policy, or the school should require the IU and vendor to sign the school's Acceptable Use Policy;
8. The school's Acceptable Use Policy should include provisions for privacy (e.g., monitoring of electronic mail, access to files), access (acceptable use guidelines for user), accountability (responsibilities of users, auditing, incident handling) authentication (e.g., password security and syntax requirements), and violations/incidents (what is to be reported and to whom);
9. The school should establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions; and
10. The school should implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should include alpha, numeric, and special characters. Also, the school should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords).

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

Response of Management

Management provided the following response agreeing with the observation, with certain indicated exceptions. Aside from the exceptions taken, management stated that the school will develop a plan to implement our recommendations. (The management response repeated certain Auditor General recommendations as an introduction to their management response. For brevity, these repetitions have been removed.)

[Response to Recommendation 1]: Comment: As previously communicated, most employees work from remote offices a large percentage of the time, so much employee access is remote. Hence, generating and reviewing reports of remote employee access would not be productive or useful. Monitoring of the vendor will be implemented.

[Response to Recommendation 6]: Reply: As previously communicated and documented, approval by school officials is required before upgrades or updates to the school's system are made.

[Response to Recommendation 8]: Reply: A revision to the Acceptable Use Policy is under review by the Board and counsel, and these items will be taken into consideration.

[Response to Recommendation 9]: Reply: This analysis is indeed currently performed, although a written procedure does not exist. A written procedure for such will be developed.

[Response to Recommendation 10]: Reply: If these are documented requirements for all Pennsylvania public schools we will certainly implement them. However, as stated previously we believe these requirements will lead to a less secure system: There are varying views on password complexity and change frequency. Our view is that forcing very complex passwords, and requiring them to be changed frequently, often leads users to record their passwords on paper, usually in close proximity to their computer.

This makes the system less secure. Our belief is that users are less apt to write down their passwords if they are allowed to use a relatively complex password (minimum length, mix of numbers and letters) for an extended period of time. A decent password is better than a very complex password on a post-it note on the monitor.

21ST CENTURY CYBER CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

The school administration believes the following provides appropriate security in excess of what most K-12 school currently do:

- change passwords every 180 days
- passwords have a minimum length of 8 characters, and must include at least two numbers

Also, note that the SIS stores passwords in an encrypted, secure form, maintaining a password history would require storage in a non-secure manner, potentially making the SIS [student information system] less secure.

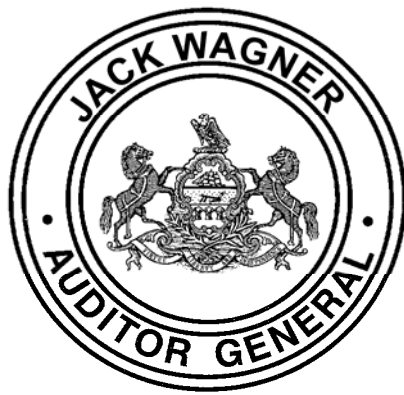
Auditor's Conclusion

It appears that school management has agreed to implement corrective actions for recommendations 2, 3, 4, 5, 7, 8 and 9. However, they take exception to recommendations 1, 6 and 10.

Allowing unmonitored access into the school's membership and attendance databases in the SIS could lead to unauthorized changes in the system or the data. Therefore, we continue to recommend that the school review monitoring reports of access into these databases and that they maintain evidence of this review.

Although the school contends that approval by school officials is required before upgrades or updates to the school's system are made, evidence of such approval was not provided to our auditors. We recommend that the school maintain this evidence for audit.

Due to the sensitive nature of the data in the SIS, we continue to recommend the logical access settings detailed above. The school should work to develop methodologies to force password changes after 30 days, enforce syntax requirements, and maintain password histories.



21ST CENTURY CYBER CHARTER SCHOOL
APPENDIX I

[UNAUDITED]

Schedule of Local Revenue

The cyber charter school reported local revenue for the years ended June 30, 2006, 2005 and 2004 as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|--------------------|--------------------|--------------------|
| <u>LOCAL REVENUE</u> | | | |
| Payments from Sending School Districts ³⁶ | \$3,478,143 | \$2,545,678 | \$2,673,526 |
| Earnings on Investments | - | 66 | - |
| Federal Revenue Received from Other | | | |
| Intermediate Sources | 22,474 | 27,649 | - |
| Summer School Tuition | - | 300 | 11,225 |
| Revenue From Community Service Activities * | (7,499) | 24,682 | (1,901) |
| Services Provided Other Funds | | | 4,000 |
| Miscellaneous | 256 | - | - |
| | <u>256</u> | <u>-</u> | <u>-</u> |
| <u>TOTAL PAYMENTS</u> | <u>\$3,493,374</u> | <u>\$2,598,375</u> | <u>\$2,686,850</u> |

*As explained by the charter school, this line item with an asterisk typically represents funds collected from students/parents for unreturned textbooks and/or computer equipment. For 2005-06 and 2003-04, this revenue is negative because of adjustments to prior year receivables.

³⁶ These dollar amounts represent actual payments made to the 21st Century Cyber Charter School from the sending school districts.

21ST CENTURY CYBER CHARTER SCHOOL
APPENDIX II

[UNAUDITED]

Schedule of State Revenue

The cyber charter school reported state revenue of \$63,419, \$53,713 and \$50,197, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------------------------------|-----------------|-----------------|-----------------|
| <u>STATE REVENUE</u> | | | |
| Health Services | \$ 5,250 | \$ 5,554 | \$ 4,879 |
| Social Security and Medicare Taxes | 31,721 | 31,557 | 30,700 |
| Retirement | <u>26,448</u> | <u>16,602</u> | <u>14,618</u> |
| <u>TOTAL STATE REVENUE</u> | <u>\$63,419</u> | <u>\$53,713</u> | <u>\$50,197</u> |

21ST CENTURY CYBER CHARTER SCHOOL
APPENDIX III

Description of State Revenue (Source: Pennsylvania Accounting Manual)

Health Services

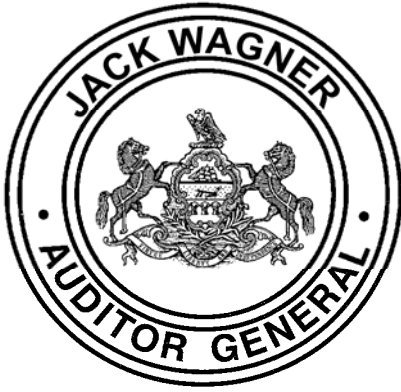
Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.



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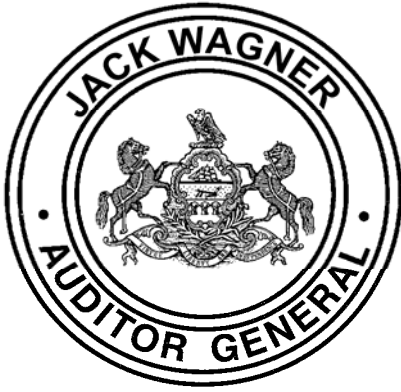
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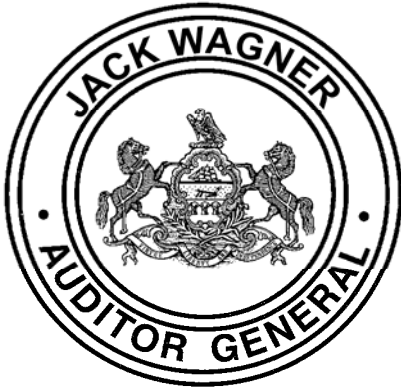
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