

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

DECEMBER 2008

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Sheldon Thorpe, Board President
Pennsylvania Virtual Charter School
1 West Main Street, Suite 400
Norristown, Pennsylvania 19401

Dear Governor Rendell and Mr. Thorpe:

We have conducted a performance audit of the Pennsylvania Virtual 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 Pennsylvania Virtual 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 assurance 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 Pennsylvania Virtual 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 and observation further discussed in the Conclusion section of this report:

- | | |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Finding | – Board Members Failed to File or Filed Late Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act |
| Observation | – Unmonitored Vendor System Access and Logical Access Control Weaknesses |

Independent Auditor's Report (Continued)

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

Sincerely,

/s/

JACK WAGNER
Auditor General

December 18, 2008

cc: Mr. Mike Kello, Board Vice-President
Ms. Melinda Morrison, Board Secretary/Treasurer
Mr. Mark Graham, Board of Trustees
Mr. John McElvenny, Board of Trustees
Ms. Bonnie Schaefer, Board of Trustees
Ms. Joanne A. Jones Barnett, Chief Executive Officer

PENNSYLVANIA VIRTUAL 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

¹24 P.S. § 17-1702-A.

²Id.

³24 P.S. § 17-1717-A (a).

⁴24 P.S. § 17-1717-A (c).

⁵24 P.S. § 17-1717-A (d).

⁶24 P.S. § 17-1717-A (f).

⁷24 P.S. § 17-1721-A (a).

⁸24 P.S. § 17-1720-A.

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

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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 As of September 14, 2007, there are 122 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 DE expects the total number of charter schools to increase by five to seven for the 2007-08 school year based on new charter school applications pending final approval.

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

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The Pennsylvania Virtual Charter School, located in Montgomery County, opened in July of 2001. The Pennsylvania Virtual Charter School was originally chartered for a period of five years by the Norristown Area School District.

According to its mission statement, the Pennsylvania Virtual Charter School seeks to create a dynamic learning environment in which students are challenged to achieve academic excellence at every ability level, utilizing a methodology that is differentiated to meet the needs and address the talents of all students. Pennsylvania Virtual Charter School's mission statement states that the school is committed to engendering within students a life-long love of learning.

During the school year ended June 30, 2006, the school provided educational services to 4,211 students from 456 sending school districts through the employment of 34 administrators, 130 teachers, and 164 full-time and part-time support personnel. The charter school also provided educational services to 4,108 students during the 2004-05 school year, and 3,309 students during the 2003-04 school year.

Expenditures for the school years¹⁴ ending June 30, 2006, June 30, 2005 and June 30, 2004 were \$34,173,565, \$27,047,888 and \$22,008,936, respectively. Revenues of \$35,711,831, \$30,488,182 and \$23,290,486 supporting these expenditures were derived from local, state, and federal sources for the 2005-06, 2004-05 and 2003-04 school years, respectively (see Summary of Charter School Revenue, page 6). State revenue was received in the form of Retirement and Social Security payments, and special education-funding for school aged pupils (see Appendix III Schedule of State Revenue, page 22).

The charter school derives the majority of its operating revenue from the school districts whose students attend the 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 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 estimated average daily membership (ADM) for the immediately preceding school year. This funding calculation per ADM is to be paid to the charter school by the sending school districts, based on the actual ADM of their students who attend the charter school.

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

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).

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

SUMMARY OF CHARTER SCHOOL REVENUE

[UNAUDITED]

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>CHARTER SCHOOL REVENUES</u>			
Local Revenue*	\$34,502,575	\$29,539,115	\$22,878,678
Federal Revenue	916,824	709,515	171,475
State Revenue	<u>292,432</u>	<u>239,552</u>	<u>240,333</u>
<u>TOTAL REVENUE</u>	<u>\$35,711,831</u>	<u>\$30,488,182</u>	<u>\$23,290,486</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.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

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

- to determine overall compliance with the Public School Code of 1949¹⁷ (Code) and the Charter School Law;¹⁸
- to determine whether at least 75 percent of the 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 Charter School Law (Law);¹⁹
- to determine whether the charter school complied with Sections 1109 and 1209 of the Public School Code,²⁰ to which charter schools are made subject by Section 1724-A(b) of the Charter School Law,²¹ requiring that noncertified professional employees of the charter school present evidence that they are of good moral character, at least 18 years of age, a U.S. citizen, and 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;
- to determine whether the 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 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).

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE (Continued)

- . to determine whether the 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 charter school removed days in excess of ten consecutive unexcused absences from the school's reported membership totals pursuant to 22 Pa. Code § 11.24 of the Regulations;²⁵
- . to determine whether each of the 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 charter school complied with Section 1303-A of the Code²⁷ requiring the charter school to obtain a Memorandum of Understanding with their local law enforcement agency;
- . to determine whether the charter school is in compliance with Section 1724-A(c) of the Law²⁸ requiring that all employees of the charter school be enrolled in the Public School Employees' Retirement System at the time of filing the 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 determine whether the charter school is in compliance with Section 1728-A of the Law²⁹ requiring each charter school to assess whether it is meeting the goals of its charter and to submit a report of its assessment to DE no later than August 1 of each year.

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 Public School 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. § 13-1303-A(c).

²⁸ 24 P.S. § 17-1724-A(c).

²⁹ 24 P.S. § 17-1728-A.

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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 charter school requires the charter school's board of trustees to establish and maintain internal controls to provide reasonable assurance that specific charter school objectives will be achieved. Charter school trustees are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the charter school's internal controls as they relate to the 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.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION

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

- the charter school demonstrated that at least 75 percent of the 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;³⁰
- the charter school demonstrated compliance with Sections 1109 and 1209 of the Code,³¹ to which charter schools are made subject by Section 1724-A(b) of the Law,³² 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 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;³³
- the charter school validated membership numbers reported to DE and that average daily membership and tuition billings were accurate;
- the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code³⁴ and Chapter 11 of the State Board of Education Regulations;³⁵

³⁰ 24 P.S. § 17-1724-A(a).

³¹ 24 P.S. §§ 11-1109 and 12-1209.

³² 24 P.S. § 17-1724-A(b).

³³ 24 P.S. § 17-1715-A(9).

³⁴ 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 Charter School Law, 24 P.S. § 17-1732-A(a).

³⁵ 22 Pa. Code, Chapter 11.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION (Continued)

- the charter school complied with Section 1303-A of the Code³⁶ requiring the charter school to obtain a Memorandum of Understanding with their local law enforcement agency;
- the charter school is in compliance with Section 1724-A(c) of the Law³⁷ requiring that all employees be enrolled in the Public School Employees' Retirement System unless at the time of filing the charter school application the sponsoring school district or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program; and
- the charter school submitted its annual reports assessing whether or not it met the goals of its charter to DE as required by Section 1728-A of the Law.³⁸

However, we determined that the Pennsylvania Virtual 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. Furthermore, we report on the outside vendor access and logical access controls in the observation below. The finding, observation and recommendations were reviewed with representatives of the Pennsylvania Virtual Charter School, and their comments have been included in this report.

Finding – Board Members Failed to File or Filed Late Statements of Financial Interests in Violation of the Public Official and Employee Ethics Act

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

- for 2006, three board members and the board president failed to file and two board members filed late;
- for 2005, three board members and the board president failed to file and two board members filed late;
- for 2004, three board members and the board president failed to file and three board members filed late; and

³⁶ 24 P.S. § 13-1303-A(c).

³⁷ 24 P.S. § 17-1724-A(c).

³⁸ 24 P.S. § 17-1728-A.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

- . for 2003, two board members and the board president failed to file and three board members filed late.

The individuals who filed their statements late filed them in March of 2008.

Of the Statements of Financial Interests forms that were on file for the 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), 65 Pa.C.S. § 1101 *et seq.*, requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year after leaving such positions.³⁹

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, the board members' failure to file the Statement of Financial Interests constituted a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, 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 . . .⁴⁰

Section 1109(b), of the Ethics Act 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.⁴¹

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 \$250.⁴²

³⁹ 65 Pa.C.S. § 1101 *et seq.*

⁴⁰ 65 Pa.C.S. § 1104(d).

⁴¹ 65 Pa.C.S. § 1109(b).

⁴² 65 Pa.C.S. § 1109(f).

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
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Finding (Continued)

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 should:

- seek the advice of its solicitor in regard to the board of trustee's responsibility when administrators and members fail to file or filed late 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.

Response of Management

Management provided the following response agreeing with the finding:

Members of Pennsylvania Virtual Charter School's ("PAVCS") Board of Trustees were aware of the requirement to file a Statement of Financial Interest annually. Each year the School provided Board members with the appropriate form to complete and followed up with Board members who had not filed and reminded them of this requirement.

PAVCS will notify existing Board members of the auditor's findings. Moreover, the School will adopt a Board policy setting forth consequences for Board members that fail to file their Statements of Financial Interest in a timely manner.

Finally, it should be noted that the Commonwealth Court has held that a charter school's board of trustees' failure to file Statements of Financial Interest is an insufficient reason to not renew a school's charter. (*School District of the City of York v. Lincoln Charter School*, 889 A.2d 1286 (Pa.Cmwlth. 2006).

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Auditor's Conclusion

We appreciate the school's efforts to have their board members submit their Statements of Financial Interests on a timely basis. Our finding does not question the renewal of the school's charter.

Observation – Unmonitored Vendor System Access and Logical Access Control Weaknesses

The Pennsylvania Virtual Charter School (PAVCS) uses software purchased from an outside vendor for its critical student accounting applications. Additionally, PAVCS' entire computer system, including all its data and the vendor's software are maintained on both the vendor's servers, which are physically located at the vendor's location, and on its internal server located at the charter school administration building. The vendor has remote access into PAVCS' network servers. The vendor provides PAVCS with system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to PAVCS' data could occur and not be detected because PAVCS was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. PAVCS does not have adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, which increases the risk of information being altered in the student database.

Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to PAVCS' membership information and result in PAVCS not receiving the funds to which it was entitled from the state.

During our review, we found PAVCS had the following weaknesses as of June 10, 2008, over vendor access to PAVCS' system:

1. PAVCS 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 PAVCS employees). There is no evidence to support that PAVCS is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system;

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation (Continued)

2. PAVCS does not have adequate compensating controls that would mitigate the information technology (IT) weaknesses and would support that PAVCS would be alerted to unauthorized changes to the membership database, i.e. reconciliations to manual records, analysis of membership trends, data entry procedures and review, etc;
3. The vendor has unlimited remote access (24 hours a day/7 days a week) into PAVCS' system;
4. PAVCS' Acceptable Use Policy does not include provisions for accountability (responsibilities of users, auditing, incident handling) and authentication (e.g., password security and syntax requirements);
5. PAVCS has certain weaknesses in logical access controls. We noted that PAVCS' system parameter settings do not require all users, including the vendor, to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; and to log off the system after a period of inactivity (i.e. 60 minutes maximum);
6. PAVCS does not maintain the server with membership/attendance data in a restricted/secure area. The servers are located in a room next to the Chief Financial Officer's office and are open during the normal working hours; and
7. PAVCS has certain weaknesses in environmental controls in the room that contains the server that houses all of PAVCS data. We noted that the specific location is not a temperature controlled room.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
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Recommendations

We recommend that PAVCS implement the following to correct vulnerabilities identified in this observation:

1. PAVCS should generate monitoring reports (including firewall logs) 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). PAVCS should review these reports to determine that the access was appropriate and that data was not improperly altered. PAVCS should also ensure it is maintaining evidence to support this monitoring and review;
2. To mitigate information technology control weaknesses, PAVCS should have compensating controls that would allow its staff to detect unauthorized changes to the membership database in a timely manner;
3. PAVCS should only allow remote access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes;
4. PAVCS Acceptable Use Policy should include provisions for accountability (responsibilities of users, auditing, incident handling), and authentication (e.g., password security and syntax requirements);
5. PAVCS should implement a security policy and system parameter settings to require all users, including the vendor, to use passwords that include alpha, numeric and special characters and log a user off after a period of inactivity;
6. PAVCS should maintain the servers with the membership/attendance data in a restricted/secure area in order to detect/deter unauthorized physical access to the membership/attendance data; and

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
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Observation (Continued)

7. PAVCS should consider implementing additional environmental controls in the room that contains the server that houses all of PAVCS' data. We noted that the specific location does not have a temperature control.

Response of Management

Management provided the following response to the observation:

1. As it relates to the internal school server, remote access to PAVCS' internal server is granted specifically by the school's Director of IT. In addition, the school's data security firewall maintains an internal log of security breaches that the IT department reviews periodically. Because this log is a list of all internet protocol traffic, it is quite voluminous and takes up a lot of physical storage space. Therefore the school's practice has been to review but not print or store the firewall log. In order to comply with the observation recommendation, the school will begin to store, in addition to review, this log on a periodic basis.

As it relates to the school's third party vendors, although the school has a list of all of the authorized vendor personnel that have access to the school's data, it does not currently have any reports that detail changes made by authorized personnel. The school will endeavor to incorporate the use of monitoring reports of remote access and activity into existing and upcoming contracts.

2. The school currently employs a number of different methodologies to account for changes made to membership data. For example, the following procedure has been developed to account for changes made to PDE's Child Accounting Database (CAD) system:

Once the School District Reconciliation reports are completed and mailed to the school districts the follow[ing] occurs:

- Final Reconciliation data is uploaded to CAD;
- Data in CAD is reviewed and reconciled to Final Reconciliation totals. CAD data is again reviewed and updated in September after school districts have been given sufficient time to advise PAVCS of any reconciliation changes that need to be made. When invoicing information is updated/corrected - CAD is corrected/adjusted and reconciled;

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Observation (Continued)

- During the school year adjustments are made as requested by either PDE or the school district; and
- All adjustment spreadsheets are located on the Finance I drive.

There are a number of different departments that are responsible for different areas of student database administration. As such and in an effort to have an adequate system of compensating controls, the school is in the process codifying student data compensating controls into one comprehensive procedure manual.

3. Management disagrees with this observation. Remote access, to PAVCS' internal system, is granted specifically by the school's Director of IT.
4. PAVCS has updated its Acceptable Use Policy and it now provides processes to address the above issues. A copy of that policy follows:

PASSWORD CHANGE POLICY

Employees are required to change their passwords to PAVCS systems (Blackboard Academic Suite, Email, etc.) upon initial receipt of the generic assigned password and every thirty (30) days thereafter with the minimal strength of the alphanumeric eight (8) character password.

5. While the above observation is true for the student information system vendor, it does not apply for PAVCS' internal server or IT infrastructure. PAVCS will work diligently with its third party vendors to find cost effective solutions to weaknesses in logical access.
6. This weakness will be resolved, in the 2009 fiscal year, when appropriate temperature controls will be introduced.
7. PAVCS management is aware that the temperature controls, established by the building landlord, are currently insufficient to handle the type and number of equipment that currently resides in the IT server room. To that end PAVCS management has allocated funding, in the 2009 fiscal year, to correct this situation.

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Observation (Continued)

Auditor's Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit. The observation remains as presented.

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APPENDIX I

[UNAUDITED]

Schedule of Local Revenue

The 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>			
Earnings on Investments	\$ 209,423	\$ 29,490	\$ -
All Other Local Revenues Not Specified	496	491	2,862
Payments from Sending School Districts ⁴³	<u>34,292,655</u>	<u>29,509,134</u>	<u>22,875,816</u>
<u>TOTAL PAYMENTS</u>	<u>\$34,502,574</u>	<u>\$29,539,115</u>	<u>\$22,878,678</u>

⁴³ These dollar amounts represent actual payments made to the PA Virtual Charter School from the sending school districts.

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
APPENDIX II

[UNAUDITED]

Schedule of Federal Revenue

The charter school reported federal revenue of \$916,823, \$709,515 and \$171,475, 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>FEDERAL REVENUE</u>			
NCLB (1), Title 1, Improving the Academic Achievement of the Disadvantaged	\$433,201	\$ -	\$ -
NCLB (1), Title II, Preparation/Training/Recruitment HQ Teachers/Principal	4,910	-	-
NCLB (1), Title VI, Flexibility and Accountability	478,106	492,378	-
Child Nutrition Program	606	3,759	2,542
Grants (IDEA & NCLB)- Not Specified	-	213,378	-
Other Restricted Federal Grants-in-Aid Through the Commonwealth	-	-	<u>168,933</u>
<u>TOTAL FEDERAL REVENUE</u>	<u>\$916,823</u>	<u>\$709,515</u>	<u>\$171,475</u>

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
APPENDIX III

[UNAUDITED]

Schedule of State Revenue

The charter school reported state revenue of \$292,432, \$239,552 and \$240,333, 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>			
Special Education-Funding for School Aged Pupils	\$ -	\$ 13,845	\$ -
Social Security	201,443	148,751	122,308
Retirement	90,989	76,956	58,885
Extra Grants*	<u>-</u>	<u>-</u>	<u>59,140</u>
<u>TOTAL STATE REVENUE</u>	<u>\$292,432</u>	<u>\$239,552</u>	<u>\$240,333</u>

* Misclassified as state revenue on the charter school's annual financial report, actually IDEA federal revenue

PENNSYLVANIA VIRTUAL CHARTER SCHOOL
APPENDIX IV

[UNAUDITED]

Description of State Revenue (Source: Pennsylvania Accounting Manual)

Special Education-Funding for School Aged Pupils

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school-age special education students.

Social Security

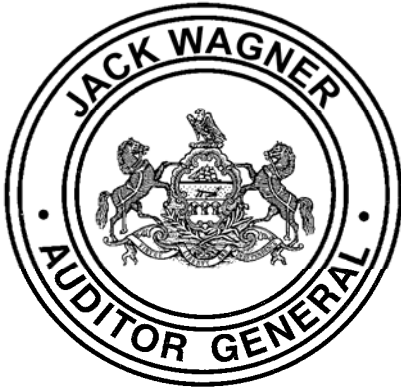
Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security for covered employees who are not federally funded.

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.

Extra Grants

Revenue received from the Commonwealth not specified elsewhere.



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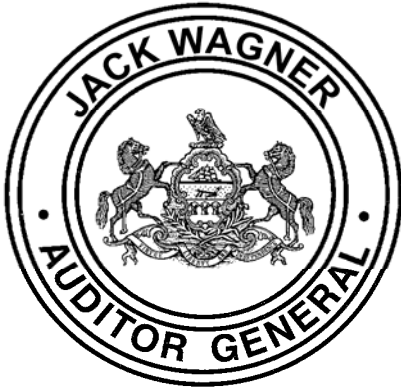
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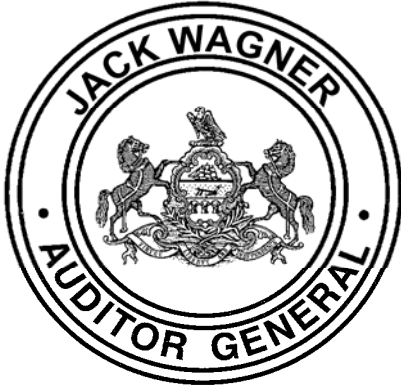
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