



December 17, 2021

To Board Officers and Members and Management  
West Perry School District  
Elliottsburg, Pennsylvania

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of West Perry School District as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered West Perry School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Perry School District's internal control. Accordingly, we do not express an opinion on the effectiveness of West Perry School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we also became aware of the certain deficiencies in internal control, other than material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. Attachment A, which accompanies this letter, summarizes our comments and suggestions concerning these matters.

This communication is intended solely for the information and use of management, Board Officers and Members, and others within the School District, and is not intended to be, and should not be, used by anyone other than these specified parties. In the event a third party requests and obtains a copy of this letter, that third party will need to exercise an appropriate level of independent due diligence. Accordingly, the use of this information by a third party is solely their responsibility and their judgment.

Page 2

We thank all those who assisted us during the course of our audit, and we look forward to a continued working relationship.

Respectfully yours,

A handwritten signature in black ink that reads "Trout CPA". The word "Trout" is written in a cursive script, while "CPA" is in a more formal, slightly cursive font.

Trout CPA

## Attachment A

### Comments and Suggestions from our IT Audit Specialist

#### Cyber Liability Insurance

The School does not have cyber liability insurance.

Here are some findings from the 2020 Verizon Data Breach Investigations Report for Educational Services:

- This industry saw phishing attacks in 28% of breaches and hacking via stolen credentials in 23% of breaches. In incident data, Ransomware accounts for approximately 80% of Malware infections in this vertical. Educational Services performed poorly in terms of reporting phishing attacks, thus losing critical response time for the victim organizations.
- Ransomware is really taking hold of Education vertical incidents, and has been responsible for 80% of the Malware-related incidents, up from 48% last year. All of those Ransomware cases have also played a role in the increase we have seen in financially motivated incidents for the past two years.
- One additional concern in this sector is the fact that, according to our analysis, this is the only industry where malware distribution to victims was more common via websites than email. This information doesn't really seem to make sense until you consider malware being distributed via unmonitored email (such as personal mail accounts from students on bring-your-own devices connected to shared networks), and all of those infections obviously endanger the larger organization.

The costs of investigating an actual or potential breach, computer forensic costs, legal fees, notification fees (staff, parents, former students, etc) can easily exceed \$250,000.

#### **Recommendation:**

During our audit we noted that the School District does not have a cyber liability insurance policy in place to provide protection against cyber incidents. We recommend that the School investigate a cyber liability insurance policy with a minimum limit of \$ 1,000,000.

#### **Network Administrator Accounts are Prime Targets for Cyber Criminals**

In order to make the acquisition or use of these login credentials more difficult, two factor authentications may be employed when accessing the VPN.

#### **Recommendation:**

Two factor authentication involves the use of a code sent to the user's phone by text message. In addition to needing to know a login ID and password, a user needs to have a code that is sent to his/her phone every time the person logs in. Unless a hacker also has a user's phone, it is impossible to use a stolen login ID and password to access the network. The two-factor authentication is typically included in the firewall VPN feature set and should be enabled if available. We can demonstrate how our firm has implemented this solution to protect our data.

## **Disaster Recovery Plan**

### **Recommendation:**

Create a DR Plan for use in case of emergency. This should cover all things IT/Technology related for the purpose of being used in a Business Continuity situation. Serving data from remote locations, expected downtime before being operational, any data loss expected; are all components of a formal plan. Assigning team members to roles is also expected so that in the case of emergency, a plan can be followed to ensure minimal downtime and minimal data loss.

## **Comments and Suggestions from our Financial Statement Audit Team**

### **General Ledger Accounting - Fiduciary Funds**

The detail maintained in a general ledger accounting system is integral to financial reporting and day to day oversight of the School District. During our audit, we noted that the School District does not maintain the accounting records for the fiduciary funds in its general ledger accounting software. We were able to obtain the detail for these areas through supplemental records. The absence of the activity in the accounting software poses a risk to completeness of financial reporting. The School District should include all activity in its general ledger accounting system. By including these funds in the general ledger, the School District can obtain more timely and complete information for entity wide reporting.

### **Lease Accounting Standard**

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the School District's June 30, 2022, financial statements. The basic tenet of Statement No. 87 is that all leases represent financings, and the classification and accounting for leases in governmental financial statements will resemble the treatment of leases under International Financial Reporting Standards (IFRS). All leases will fall into one of the following categories:

- Short-Term Leases: leases with a maximum noncancelable lease term of twelve months or less. Accounting for short-term leases will follow the existing accounting for operating leases, whereby outflows of resources are recorded as expenditures/expenses.
- Contracts that Transfer Ownership: The contracts will be accounted for as sales of assets by the lessor and purchases of assets by the lessee, similar to existing accounting for contracts classified as capital leases.
- Contracts that do not Transfer Ownership: This category includes any lease contract that does not fall into either of the first two categories. In full accrual financial statements, lessees will recognize a right-of-use asset (an intangible asset) and related lease liability. The amounts recorded at inception of the contract will be measured as the present value of the future minimum lease payments. During the term of the lease, the intangible asset will be amortized, the lease liability will be reduced, and interest expense will be recorded. In modified accrual fund financial statements, the School District will recognize an expenditure and an other financing source at the inception of the contract.

This Statement must be implemented retrospectively, unless it is impractical to do so. We recommend that the School District begin early to plan for implementation this standard. The School District should prepare an inventory of all leases, and classify each contract according to the criteria above. The inventory should indicate all relevant terms of the contracts, so that the leases can be accurately categorized, accounted for, and disclosed.

**Fixed Asset Policy Revision**

In its Implementation Guide No. 2021-05, Item 5.1, the Governmental Accounting Standards Board (GASB) clarified that a government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets, in the aggregate, are significant. Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. The guidance is effective for years beginning after June 15, 2023, but earlier application is encouraged. The School District should revise its capitalization policy to incorporate this guidance from GASB. Currently, the School District's fixed asset policy is to capitalize any asset that is greater than \$5,000 for a single item.