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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Rebecca Acosta, Board President
Reading School District
800 Washington Street
Reading, Pennsylvania 19601

Dear Governor Corbett and Ms. Acosta:

We followed-up on the status of the recommendations made in our performance audit of the Reading School District (District), released on May 3, 2013. The purpose of this review was to assess the District's progress in implementing our audit recommendations six (6) months after its release. The original audit sought to determine the District's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. The audit covered the period March 23, 2011 through February 22, 2013, except as otherwise indicated in the report. In addition, based on the unique concerns raised by the District's independent financial auditors, and other interested parties, we performed certain procedures related to the District's accounting practices, academic performance, and governance, which covered school years 2005-06 through 2012-13. Compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2012, 2011, 2010, and 2009. While the prior audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, our follow-up review was not conducted in accordance with these standards.

The District is responsible for educating 17,651 students and has nineteen (19) operating school buildings. All of its schools have between 95 and 81 percent economically disadvantaged students. In addition, the District's schools have an average of nineteen (19) percent English Language Learners. Overall, the District's academic performance has been weak. Its schools received an average score of 54.3 on the Pennsylvania Department of Education's recently published 2012-2013 School Performance Profiles. These scores placed all but two (2) of the District's schools in the lowest performance category of <60.¹ In the 2011-12 school year, the state provided the District with \$145.8 million in funding, which comprised approximately 70 percent of its total revenues. This is a significant percentage given that, on average, state funding accounts for only 42 percent of school districts' total revenues.

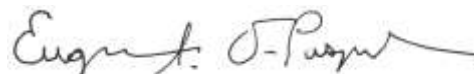
¹ The Pennsylvania Department of Education issued the school performance profiles for 2012-13. These are school level academic scores required under the Educator Effectiveness System (24 § 11-1123-Act 82-2012) that replaced the Adequate Yearly Progress System. Please note that all but two of the District's schools were in the lowest performance category of <60.

Our follow-up review found that over the last six (6) months, the District made some progress in implementing our audit recommendations. Specifically, the District implemented six (6) of 17 recommendations cited in our four (4) findings and one (1) observation. However, the remaining eleven (11) recommendations that are either not implemented or are in process addressed the District's serious academic, financial, and governance problems. For example, findings one and two in the original audit focused on the District's failure to meet its twin missions of effectively educating its students and judiciously managing its taxpayer funding. Our follow-up review found that the District only fully implemented three (3) of the nine (9) recommendations in Finding One (1) and none of the recommendations in Finding Two (2). Furthermore, one of the recommendations in Finding One (1) that was not implemented called for the District to put in place a comprehensive academic improvement plan. Therefore, it appears that the District's progress on the major issues identified in the original audit has been minimal. A full summary of the results of our review is provided on the pages following this letter.

Since we conducted our original audit, the District has also continued to experience turnover in its top administrative position. On November 26, 2013, the District's Board of School Directors (Board) voted to fire the District's superintendent who was two years into her five-year contract. As a result of this decision, the District has now had five superintendents (three permanent and two acting) over the last eight years. In addition, two of the District's Board members resigned at the end of December 2013, creating additional gaps in its leadership. Our original audit found that the District's failure to meet its educational and operational missions was ultimately the result of its poor governance, which was made worse by the near constant turnover in its upper management. Therefore, it appears that these dramatic shifts in top leadership continue to plague the District, and it is possible that this could be impeding the District's ability to implement our recommendations.

The District's continued failure to take significant action to correct its serious structural deficiencies continues to place the education and the future of its students in jeopardy. Moreover, the District's persistent reluctance to document its internal procedures, particularly its accounting practices, also inhibits the establishment of a strong operational foundation in the face of continual high staff and management turnover. To facilitate its path to recovery, the District must, at a minimum, implement all of the remaining recommendations outlined in our original audit report. However, for truly substantial change to be achieved the District must go further. It must seek competent and stable governance through a dedicated superintendent and a collaborative engaged Board committed to executing the necessary transformation that will provide the District's students with a promising future.

Sincerely,



EUGENE A. DEPASQUALE
Auditor General

January 16, 2014

Recommendations	Implemented	Not Implemented	In Process
Finding One: The Reading School District's Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars			
1. Immediately implement the recommendations in the District's last four independent financial audits.			✓
2. Immediately prepare and adopt policies and procedures governing its accounting processes.		✓	
3. Immediately develop internal control procedures which necessitate monthly bank reconciliations, if that is not already taking place.			✓
4. Establish procedures for ensuring that the District is complying with all GAAP principles.		✓	
5. Identify all of the District's key activities and then ensure that there are written policies and procedures to govern them. In addition, the District's management should develop a process for monitoring whether staff regularly follows these established protocols. The District's strategy for implementing a system of accountability should include:		✓	
i. Establishing an organizational reporting structure that clearly defines areas of responsibility and authority and appropriate lines of reporting.		✓	
ii. Identifying risks, analyzing their potential consequences, and determining actions to mitigate them.		✓	
iii. Developing policies and procedures, techniques, and mechanisms that ensure goals are met and the risk of error is reduced.		✓	
iv. Keeping proper documentation to show the execution of important activities.		✓	

Recommendations	Implemented	Not Implemented	In Process
6. Complete its comprehensive AYP corrective action plan and develop procedures for ensuring that this plan is properly implemented and that future plans are completed on time. The District should also ensure that the completed plan does not need additional revisions given its untimeliness.		✓	
7. Hold management accountable for properly implementing the school board's policies and regularly and consistently monitor management's performance.	✓		
8. Continue to ensure that it receives monthly up-to-date cash and bank reconciliation statements.	✓		
9. Have someone, such as the school board treasurer, sign-off on all monthly bank statements.	✓		
Finding Two: District Has Failed to Effectively Track Expenditures and Revenues, Leading to a Lack of Financial Accountability for Its Tax Dollars			
1. Implement written policies and procedures for: (1) the posting and reconciliation of cash receipts and revenue accounts, (2) cash disbursements and expenses, and (3) capturing and recording activity between funds and payroll related benefits and expenditures.		✓	
2. Evaluate its current accounting system and determine how to ensure that it has all of the necessary information to track the District's revenues and expenditures. In addition, the District should develop a mechanism for verifying that all of its bills are being paid timely, and if necessary, obtain training for its accounting staff on how to properly use its accounting system.		✓	

Recommendations	Implemented	Not Implemented	In Process
Finding Three: Certification Deficiencies			
1. Take the necessary action required to ensure compliance with certification regulations.	✓		
2. Implement procedures to track years of service for all individuals who are not permanently certified.	✓		
Finding Four: Memorandum of Understanding with Local Law Enforcement Not Updated Timely			
1. In consultation with the District's solicitor, review the new requirements for MOUs and other school safety areas under the Public School Code to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.	✓		
2. Adopt an official board policy requiring the District's administration to biennially update and re-execute all MOUs with local law enforcement having jurisdiction over school property and file a copy with the Pennsylvania Department of Education's Office of Safe Schools on a biennial basis, as required by law.		✓	

Recommendations	Implemented	Not Implemented	In Process
Observation: Logical Access Control Weaknesses			
1. Implement a security policy and system parameter settings requiring that:			✓
i. Users establish their own passwords.			✓
ii. Forgotten passwords are reset and a new one created by the user.			✓
iii. All users change passwords on a regular basis (e.g., every 30 days).			✓
iv. Users are locked out after three (3) unsuccessful login attempts.			✓
2. Maintain a password history that will prevent the use of a repetitive password (e.g., last ten (10) passwords).			✓

Status of Recommendations in Process:

Recommendations	Status
Finding One: The Reading School District’s Ineffective Governance Has Prevented It from Meeting Its Primary Mission of Effectively Educating Its Students through the Judicious Use of Citizen Tax Dollars	
1. Immediately implement the recommendations in the District’s last four (4) independent financial audits.	<i>The District’s Board of School Directors (Board) approved two (2) new policies governing the management of its fund balance and debt. However, the District’s fiscal policies and procedures still have not been updated since 2006. The District did hire a budget director to review its accounts and determine the actual expenses and revenues over a three-year period. The administration then used these figures to craft a more realistic 2014-15 budget.</i>
2. Immediately develop internal control procedures which necessitate monthly bank reconciliations, if that is not already taking place.	<i>The District is performing monthly bank reconciliations, but the procedures are not in writing. However, the District is in the process of developing a procedures manual. It expects to be completed by January 2014.</i>

Recommendations	Status
Observation: Logical Access Control Weaknesses	
<p>1. Implement a security policy and system parameter settings requiring that:</p> <ul style="list-style-type: none"> i. Users establish their own passwords. ii. Forgotten passwords are reset and a new one created by the user. iii. All users change passwords on a regular basis (e.g., every 30 days). iv. Users are locked out after three (3) unsuccessful login attempts. 	<p><i>The District is in the process of implementing these recommendations. According to the District, employee passwords will be between eight (8) and twelve (12) positions and contain upper and lower case numbers, plus non-alphanumeric characters. When the auditors were conducting the follow-up review, the District was in the process of testing lock-out procedures that would take effect after three (3) unsuccessful log-in attempts.</i></p>
<p>2. Maintain a password history that will prevent the use of a repetitive password (e.g., last ten (10) passwords).</p>	<p><i>Under the system that the District is currently testing, users will not be able to re-use passwords over the course of a year.</i></p>