

CLARION COUNTY CAREER CENTER

CLARION COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003,  
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2004

WITH OBSERVATION AND RECOMMENDATION

THROUGH FEBRUARY 28, 2005





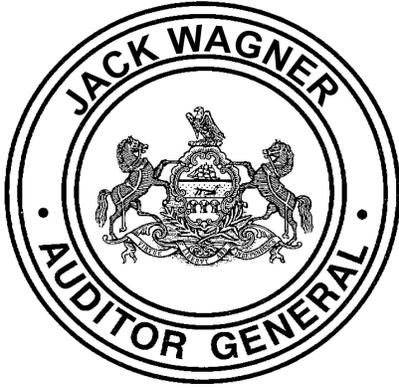
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PERFORMANCE AUDIT REPORT

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CLARION COUNTY CAREER CENTER  
CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	1
Background .....	3
Objective, Scope and Methodology .....	4
Conclusion .....	5
Supplementary Information: Schedule and Description of State Revenue Received .....	7
Audit Report Distribution List .....	9



The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

We have conducted a performance audit of the Clarion County Career Center for the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004. 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.

The objective of our audit was to determine if the Clarion County Career Center complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

Solely to assist us in planning and performing our audit, we made a study and evaluation of the internal controls of the Clarion County Career Center to determine if internal controls were adequate to help ensure the school's compliance with state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit. Accordingly, we do not express any assurance on the internal controls.

The results of our tests indicated that, in all significant respects, the Clarion County Career Center was in compliance with applicable state laws, regulations, contracts, grants, and administrative procedures. However, we identified an internal control weakness, as noted in the following observation further discussed in the Conclusion section of this report:

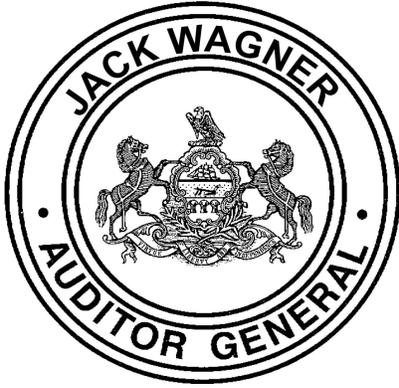
Observation – National School Fitness Foundation

We believe our recommendation, if implemented by the Clarion County Career Center, will improve the internal control weaknesses identified.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

February 28, 2005

JACK WAGNER  
Auditor General



CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT  
BACKGROUND

**Background**

The Clarion County Career Center's administrative offices are located at 447 Career Road, Shippenville, Pennsylvania.

According to school administrative officials, during 2003-04, the school provided educational services to 314 secondary pupils and 270 post-secondary pupils in various technical fields through the employment of 3 administrators, 14 teachers, and 16 full-time and part-time support personnel.

The operation, administration and management of the school are directed by a joint operating committee (JOC) which is comprised of 14 members from the following school districts:

Allegheny-Clarion Valley	North Clarion County
Clarion Area	Redbank Valley
Clarion-Limestone Area	Union
Keystone	

The JOC members are appointed by the individual school boards at the December meeting, each to serve a three-year term.

Generally, state subsidies and reimbursements are paid in the year subsequent to the year the school incurs the cost that qualifies it for the applicable subsidy or reimbursement. While the Pennsylvania Department of Education (DE) makes partial payments to the school throughout the year, final payments are normally made in June. Refer to the Supplementary Information on pages 7 and 8 of this report for a listing of the state revenue the district received during the 2003-04 and 2002-03 school years and for descriptions of the state revenue received by category.

In July, the Comptroller's Office confirms the payments that were made by DE throughout the prior fiscal year. Career center annual financial reports and the related certified audits of the payments are generally not available before October 31<sup>st</sup> of the following fiscal year.

CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT  
OBJECTIVE, SCOPE AND METHODOLOGY

**OBJECTIVE AND SCOPE**

Our audit objective was to determine if the Clarion County Career Center complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

The scope of our audit covered the years ended June 30, 2004 and 2003, and in certain areas extending beyond June 30, 2004.

**METHODOLOGY**

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended.

The proper administration of a career center requires the joint operating committee (JOC) members to establish and maintain internal controls to provide reasonable assurance that specific career center objectives will be achieved. JOC members are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the Clarion County Career Center's internal controls as they relate to the school's compliance with state laws, regulations, contracts, grants, and administrative procedures. 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.

As noted in the Background section of this report, the Department of Education generally pays state subsidies and reimbursements in the fiscal year subsequent to the fiscal year the school incurs the qualifying cost. Since we use the payment confirmations, annual financial reports and certified audit data as supporting documentation of actual payments received in the performance of our audit, we cannot begin the field work of a career center's operations for a given year until after this information becomes available.

CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT

**CONCLUSION**

The objective of our audit was to determine if Clarion County Career Center complied with applicable state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit.

The results of our tests indicate that with respect to the items tested, the Clarion County Career Center complied with state laws, regulations, contracts, grants, and administrative procedures falling within the scope of our audit. However, we identified an internal control weakness, as noted in the observation listed below. The observation and recommendation were reviewed with representatives of Clarion County Career Center, and their comments have been included in this report.

**Observation – National School Fitness Foundation**

The Clarion County Career Center entered into a contract with the National School Fitness Foundation (NSFF), a public not-for-profit organization, of American Fork, Utah, on March 17, 2004. The contract was for the purchase of a fitness program, including curriculum, exercise equipment, staff training, and certification, designed to reverse alarming national trends in obesity, inactivity, and declining health patterns of school age youth. NSFF had informed the district that the fitness program's costs would be offset by voluntary contributions from NSFF to the district. The district consulted with its solicitor regarding the proposal.

Based on the representations made by NSFF, the district borrowed \$155,787 from a financial institution in March of 2004. The district made one payment of \$6,451 in April of 2004, but received no voluntary contributions from NSFF.

On May 5, 2004, the district received an e-mail, forwarded from the financial institution, advising the district "that the Foundation has recently become the subject of an investigation by the Attorney General of the state of Minnesota," and that "the Foundation has been forced to postpone its voluntary contributions to schools participating in the L.I.F.T. America Program, due to this legal problem, as well as rapidly depleting revenue streams and donations."

The district refused delivery of equipment after receipt of the e-mail and discontinued further payments to the financial institution.

On June 1, 2004, NSFF filed for Chapter 11 bankruptcy reorganization protection. NSFF also fired its president because he was accused of misappropriating \$5 million in foundation funds. On July 26, 2004, the United States Attorney for the District of Minnesota announced that the owner and president of a major supplier of fitness equipment to NSFF, School Fitness Systems (SFS), pled guilty to bank fraud, mail fraud, and wire fraud in a scheme to defraud Minnesota financial institutions and school districts of more than \$1 million.

CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT

**Observation (Continued)**

The owner and president of SFS admitted the following in court regarding the Minnesota scheme: (1) he and others engaged in a scheme to defraud six financial institutions and Minnesota school districts; (2) he knew that school districts relied heavily on the representations made by NSFF that schools could obtain fitness equipment for “free” based on NSFF contributions back to school districts; (3) NSFF’s financial position was precarious, but he failed to tell that to prospective school district purchasers and associated financial institutions; and (4) the frequently mentioned contributions by NSFF to earlier school district purchasers had almost exclusively been paid for through the use of payments made by subsequent school district purchasers, and not from private donations or government grants as claimed.

The United States Attorney for the District of Minnesota is continuing to investigate this matter.

Recommendation

The district should exercise caution and due diligence in the future when considering purchases of this nature, particularly when representations are made that the costs would be offset so that acquisition of the program and equipment would be “free.”

Response of Management

Management provided a written response indicating disagreement with the observation. According to a letter to National City Bank from the solicitor of the Clarion County Career Center, dated April 30, 2003, it states in item #5 that any applicable public bidding requirements have been met. There is also a letter to the Clarion County Career Center Director, dated February 26, 2003, stating that based upon the solicitor’s opinion that the matter does not have to be bid because the transaction is essentially a donation at no cost to the district.

Auditor’s Conclusion

We disagree with the solicitor’s final opinion. This was a Capital Lease purchase and is subject to bid in accordance with the Clarion County Career Center, Joint Operating Committee Policy Number 610 and Public School Code, Section 807.1. Additionally, the lease-purchase agreement did not guarantee payments to Clarion County Career Center.

CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

**Schedule of State Revenue Received**

The school reported it received state revenue of \$524,947 and \$529,854, respectively, for the years ended June 30, 2004 and 2003, as detailed in the following schedule:

	<u>2004</u>	<u>2003</u>
<b>STATE REVENUE</b>		
School Performance Incentives	\$ -	\$ 20,147
Vocational Education	428,395	404,148
Social Security and Medicare Taxes	58,154	54,250
Retirement	31,648	10,588
Other Program Subsidies/Grants:		
Your Schools, Your Money	-	5,000
Office of Vocational Rehabilitation	6,750	-
Pennsylvania Higher Education Assistance Agency	-	35,721
	<hr/>	<hr/>
<b><u>TOTAL STATE REVENUE</u></b>	<b><u>\$524,947</u></b>	<b><u>\$529,854</u></b>

CLARION COUNTY CAREER CENTER  
PERFORMANCE AUDIT REPORT

**SUPPLEMENTARY INFORMATION**  
**[UNAUDITED]**

*Description of State Revenue Received per the Pennsylvania Accounting Manual*

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2504, 2506 and 2507 of the Public School Code.

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.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

BUREAU OF SCHOOL AUDITS  
AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the superintendent of record of the Clarion County Career Center, the joint operating committee members, our website address at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following:

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
1010 Harristown Building #2  
333 Market Street  
Harrisburg, PA 17126

Mr. John Godlewski, Director  
Department of Education  
Bureau of Budget and Fiscal Management  
4<sup>th</sup> Floor, 333 Market Street  
Harrisburg, PA 17126

The Honorable Robert P. Casey, Jr.  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

Dr. David Wazeter, Research Manager  
Pennsylvania State Education Association  
400 North Third Street - Box 1724  
Harrisburg, PA 17105

Ms. Ann Boyko, School Personnel Services Administrator  
Pennsylvania School Boards Association  
400 Bent Creek Boulevard  
Mechanicsburg, PA 17050

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).