

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



DEPARTMENT OF HEALTH AND HUMAN SERVICES DIVISION OF SERVICES FOR THE BLIND

BUSINESS ENTERPRISE PROGRAM

RALEIGH, NORTH CAROLINA
FINANCIAL RELATED AUDIT
JULY 2015



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EXECUTIVE SUMMARY

PURPOSE

This audit determines whether the Business Enterprise Program (BEP or Program) trains and places blind people according to program objectives and operates with adequate management oversight.

BACKGROUND

BEP provides legally blind people with the opportunity to operate their own food service or vending facility.

Legally blind people are trained and licensed by the Program and are competitively awarded facilities where they function as independent contractors (operators). Once awarded a facility, the operator is responsible for the day-to-day operations of the facility with oversight provided by BEP.

The Program is paid for with federal funding provided through the Department of Education and set-aside fees. Set-aside fees are an assessment (17%) made by the Program on the net proceeds of each food service and vending facility. Funds generated by the assessment can only be spent for expenses such as equipment, management services, and assuring a fair minimum return (wage) to vendors.

KEY FINDINGS

- \$29 million spent since 2000 without determining whether the Program meets the vocational needs of the blind.
- Ineffective oversight increased risk of facility mismanagement.

KEY RECOMMENDATIONS

- The Program should set clear, specific goals that are linked to and measured by performance measures so that decision-makers can evaluate the Program's performance.
- The Program should monitor facilities in accordance with its defined schedules as stated in the "Manual for Food Service Facility Operators." Specifically, a tracking tool should be created to ensure that all required monitoring reviews occur as required.

The key findings and recommendations in this summary may not be inclusive of all the findings and recommendations in this report.

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

July 30, 2015

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Dr. Aldona Wos, Secretary, Department of Health and Human Services
Eddie Weaver, Director, Division of Services for the Blind

Ladies and Gentlemen:

We are pleased to submit this financial related report titled Business Enterprise Program. The objectives of this audit were to determine whether the Business Enterprise Program trains and places individuals according to program objectives and operates with adequate management oversight.

Secretary Wos reviewed a draft copy of this report. Her written comments are included starting on page nine.

This audit was conducted in accordance with North Carolina General Statute 147-64.7.

We appreciate the cooperation received from management and the employees of the Department of Health and Human Services, Division of Services for the Blind during our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



BACKGROUND

The North Carolina Department of Health and Human Services Division of Services for the Blind (Division) provides services to all legally blind and visually impaired residents of the State. The Division's programs are designed to promote employment and independence for the clients served. Division services include vocational rehabilitation employment services, independent living services, and the training and placement services offered within the Business Enterprise Program.

The Business Enterprise Program (BEP or Program) provides legally blind citizens with the opportunity to operate their own food service or vending facility and earn an income. The Program locates and establishes facility locations and provides the necessary equipment, initial stock, and petty cash to operate these retail facilities. Facilities are located in federal and state buildings, at rest areas and welcome centers along interstate highways, and in some private locations.

Legally blind citizens are trained and licensed by the Program and are competitively awarded facilities where they function as independent contractors (operators). Once awarded a facility, the operator is responsible for the day-to-day operations of the facility.

The Program is responsible for assisting the operator set up the business, providing counseling and management services, and monitoring the operators to ensure that facilities are managed professionally and effectively.

The Program is paid for with federal funding provided through the Department of Education and set-aside fees. Set-aside fees are an assessment made by the Program on the net proceeds¹ of each food service and vending facility. Funds generated by the assessment can only be spent for such items as equipment, management services, and assuring a fair minimum return (wage) to vendors.

Currently, there are 89 facilities located in North Carolina, operated by 70 operators, with gross sales totaling approximately \$10.6 million a year.² Since the Program's inception³, there have been 326 individuals licensed to operate food service and vending facilities.⁴

¹ The set-aside fee is charged at 17% of operator net income.

² Annualized over state fiscal years 2012, 2013 and 2014.

³ November 14, 1978.

⁴ BEP self-reported the number of facilities and operators. OSA did not audit this information.



OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to determine whether the Business Enterprise Program (BEP or Program) trains and places individuals within program objectives and whether it operates with adequate management oversight.

The audit scope included an analysis of Program beginning July 1, 2012, through June 30, 2014.

To accomplish the audit objectives, auditors interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting transactions, as considered necessary in the circumstances. Whenever sampling was used, we applied a nonstatistical approach. Therefore, results could not be projected to the population.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that compliance with policies and procedures may deteriorate. This audit does not provide a basis for rendering an opinion on internal control, and consequently, no such opinion has been issued.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



FINDINGS, RECOMMENDATIONS, AND RESPONSES

1. \$29 MILLION SPENT SINCE 2000 WITHOUT DETERMINING WHETHER THE PROGRAM MEETS THE VOCATIONAL NEEDS OF THE BLIND

During the audit, it was discovered that the Business Enterprise Program (BEP or Program) did not have goals and measures to determine whether it was meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind.

Upon further inquiry, we determined that the Program has not had any goals and measures since the Program's inception.⁵ However due to the unavailability of records, auditors were unable to review periods further back than 2000.

Since 2000, the Program has spent more than \$29 million without establishing Program goals and measures. Without goals and measures, the Program cannot determine whether it is meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind.

\$29 Million Spent Since 2000

The Program spent more than \$29 million in federal funding and set-aside fees⁶ for operations since 2000.

According to self-reported information, 80 people (5.7 per year) have been trained and licensed to operate a food service or vending facility since 2000. Of that 80, 53 (3.8 per year) have actually been placed in a food service or vending facility to operate.

Taking total Program costs into consideration, it cost \$362,500⁷ to train each person. When looking at only the people who were ultimately given the opportunity to operate a facility, approximately \$547,170⁸ was spent on each person.

Program Does Not Know Whether It Meets Federal Regulations

Since the Program has not established any goals or performance measures, managers cannot determine whether they are meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind. There is no measure to compare actual performance. For example, there is no way for Program managers to know whether training 80 people since 2000 and placing 53 of those is exceeding expectations, meeting expectations, or falling short of expectations.

Federal regulations⁹ state that the Program should "assure that the maximum vocational potential of such vendors is achieved and suitable employment is maintained within the State's vending facility program."

When asked why the Program has not established specific performance goals and measures, management stated that specific goals and measures have not been set

⁵ November 14, 1978.

⁶ Set-aside fees are an assessment made by the Program on the net proceeds of each food service and vending facility.

⁷ \$29 million divided by 80 individuals trained and licensed.

⁸ \$29 million divided by 53 individuals placed at a food service or vending facility.

⁹ 34 CFR §395.11.

because “we do not know how many locations might be developed or how many trainees will be interested.”

Program Goals and Objectives Should Be Defined and Achievements Measured

Best practices require management to establish goals and objectives for government programs. Specifically, the Government Accountability Office (GAO) states:¹⁰

“Management, with oversight by an oversight body, sets objectives to meet the entity’s mission, strategic plan, and goals and requirements of applicable laws and regulations. Management sets objectives before designing an entity’s internal control system. Management may include setting objectives as part of the strategic planning process.”

Furthermore, GAO states:¹¹

“Management defines objectives in specific terms so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement... Management defines objectives in measureable terms so that performance toward achieving those objectives can be assessed. Measureable objectives are generally free of bias and do not require subjective judgments to dominate their measurement. Measureable objectives are also stated in a quantitative or qualitative form that permits reasonably consistent measurement.”

RECOMMENDATIONS

The Program should set clear, specific goals that are linked to and measured by performance measures so that decision-makers can evaluate the Program’s performance.

Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement.

Management should require the measures to be reported periodically, monitor the measures, and use the measures in decision making.

AGENCY RESPONSE

While it is difficult to establish goals for training a specified number of individuals due to the variability in the number of available trainees and vending business opportunities for placement year-over-year, the Division of Services for the Blind agrees that enhanced documentation of specific goals and measures related to operator performance would improve management’s decision making processes. The Division will establish, document, track and periodically evaluate more specific program goals and measures to ensure the Program maximizes business opportunities to provide a living for the legally blind.

Auditor’s Note: See page nine for full agency response.

¹⁰ GAO, Standards for Internal Control in the Federal Government, September 2014.

¹¹ GAO, Standards for Internal Control in the Federal Government, September 2014.

2. INEFFECTIVE OVERSIGHT INCREASED RISK OF FACILITY MISMANAGEMENT

The Business Enterprise Program's (BEP or Program) oversight of licensee operated food and vending operations was ineffective. More than half of the scheduled oversight activities were not performed, and those that were performed were not performed in accordance with BEP's policies and procedures.

The lack of oversight increased the risk that more than \$30 million¹² of operator generated revenue was misreported and the associated set-aside fees¹³ were not calculated correctly.

Furthermore, because oversight activities were not performed effectively, there was an increased risk that poor operator or facility performance, such as poor recordkeeping and low facility profitability, would go unnoticed and uncorrected.

Oversight Activities Not Performed

The Program did not monitor food service facilities and operators in accordance with state guidelines or division policies.

The Program could not provide evidence that it monitored business operators for the period under audit. Analysis of BEP records showed that 200 of 334 (60%) of the required monitoring activities were not performed:

OVERSIGHT ACTIVITY	NOT PERFORMED	REQUIRED	%
Sanitation Inspections (Vending Only) ¹⁴	125	193	65
Recordkeeping Reviews	27	55	49
Compliance Monitoring Reviews	34	54	63
Financial Analysis and Operating Standards Reviews	14	32	44
Total	200	334	60

Deficiencies Noted in Oversight Activities

For the oversight activities that were performed by the Program, deficiencies were noted in two separate analyses.

First, auditors identified errors in the Program's oversight activities. Auditors sampled Program oversight activity documentation and found that:

- Ten of 28 (36%) Recordkeeping Reviews¹⁵ had supporting invoices or receipts that did not agree with reported financial information with no documentation that the issues were resolved.

¹² For state fiscal years 2012, 2013 and 2014.

¹³ Set-aside fees are an assessment made by the Program on the net proceeds of each food service and vending facility.

¹⁴ BEP is only responsible for inspections of vending facilities. Sanitation inspections for food service facilities are the responsibility of local health departments and federal entities.

¹⁵ Performed annually to determine if Operators are in compliance with Program recordkeeping guidelines and federal and state regulations.

- Three of 18 (17%) Financial Analysis and Standards (FAOS) Reviews¹⁶ contained gross profit percentages that were not properly calculated.

Second, auditors identified deficiencies in operator documentation that had not been discovered by the Program's oversight activities. Auditors sampled operator D-Sheets¹⁷ and found that:

- Forty-eight of 60¹⁸ (80%) monthly operator D-Sheets lacked at least one piece of supporting documentation¹⁹ for the revenues and/or expenses reported or contained supporting documentation that did not agree with D-Sheet total. Revenues and expenses reported on these 48 D-sheets totaled \$599,784 and \$150,620, respectively.
- Eight of 60 (13%) monthly operator D-Sheets did not have any documentation to support the amounts reported. Total sales and expenses reported on these eight D-sheets totaled \$45,551 and \$15,615, respectively.

Set-aside Fees at Risk

Because oversight activities were not performed effectively, there was an increased risk that the more than \$30 million²⁰ of operator generated revenue was misreported, which could cause incorrect calculations of the required operator set-aside fee amounts.

Set-aside fees are an assessment made by the Program on the net proceeds of each food service and vending facility. Funds generated by the assessment can only be spent for such items as equipment, management services, and assuring a fair minimum return (wage) to vendors.

When there is inadequate or incorrect documentation to support the calculation of the required operator set-aside fee amounts, there is an increased risk that some operators are not paying the amount of set-aside fees that they should and that set-aside funds²¹ will not be available for necessary program expenditures.

Poor Performance Goes Unnoticed

Because oversight activities were not performed effectively, there was an increased risk that poor operator or facility performance - such as poor recordkeeping and low facility profitability - would go unnoticed and uncorrected. When management is not aware of underperforming operators and facilities, the opportunity to improve the performance of the operator or replace the underperformer with another licensed operator is lost.

The "Manual for Food Service Facility Operators" states that "performance against standards is a major part of our process to transfer or promote an Operator" and that monitoring is an important task of the Business Enterprise Representatives.²²

¹⁶ Performed bi-annually as a means for evaluating operating facilities and providing a basis for operating standards.

¹⁷ "D-Sheets" are summary reports of income and expenses that Operators are required to submit to the Department's Controller's Office each month. The D-Sheets report revenues, expenses, net proceeds, and the 17% set-aside assessment amount.

¹⁸ Across 36 Business Operators.

¹⁹ Supporting documentation includes daily sales reports, cash register tapes, and receipts for food and soft drink purchases.

²⁰ For state fiscal years 2012, 2013 and 2014.

²¹ Set-Aside fees of \$1.5 million dollars were reported as collected during our audit scope.

²² Business Representatives are responsible for monitoring operators and facilities.

No Effort to Ensure Oversight Occurs

Required oversight activities were unorganized and insufficient because Program management did not ensure that activities were performed and completed effectively.

Management was unaware of where monitoring activities occurred and where they did not and did not review activities to ensure activities were performed accurately and effectively.

There was no centralized tracking tool or management report that ensured oversight activities occurred at each facility as required.

In order to determine what reviews were performed, auditors had to ask each Business Representative which facilities they oversaw and what monitoring activities they performed.

Program Policies Require Oversight

The policies and procedures for conducting monitoring activities are detailed in the "Manual for Food Service Facility Operators" (Manual). The Manual states that "performance against standards is a major part of our process to transfer or promote an Operator" and that monitoring is an important task of the Business Enterprise Representatives.

The Manual identifies the four major monitoring activities to be performed and at what intervals. These activities consist of quarterly sanitation inspections, bi-annually FAOS reviews, and annually recordkeeping and compliance reviews. Forms documenting each review are to be maintained in each operator's file.

RECOMMENDATIONS

The Program should monitor facilities in accordance with its defined schedules as stated in the "Manual for Food Service Facility Operators." Specifically, a tracking tool should be created to ensure that all required monitoring reviews occur as required.

The Program chief or a designee should periodically review monitoring activities to ensure they are completed accurately.

AGENCY RESPONSE

The Department agrees that the oversight and monitoring activities of the Division of Services for the Blind's Business Enterprise Program (BEP) must be strengthened and it has already taken a number of steps to strengthen the Division and Program:

- Has set expectations and has accepted the resignation of the Program Director.
- Will evaluate the Business Enterprise Program operations of the Division, including an assessment of current policies/procedures, financial and program monitoring mechanisms and general oversight of the Program.
- Will develop a tracking tool to ensure that the required reviews, inspections and financial analysis are performed timely.
- Will periodically inspect monitoring reviews to ensure adequate and complete documentation is submitted.

- Will establish procedures to strengthen reporting requirements and develop a process to review operators' monthly report submissions for accuracy and validity of supporting documentation.

The anticipated completion date for the above corrective action is December 31, 2015.

Auditor's Note: See page nine for full agency response.



North Carolina Department of Health and Human Services

Pat McCrory
Governor

Aldona Z. Wos, M.D.
Ambassador (Ret.)
Secretary DHHS

July 16, 2015

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Auditor Wood:

We have reviewed the draft report of the financial related audit of the Business Enterprise Program of the North Carolina Department of Health and Human Services' Division of Services for the Blind (Division). The following are our responses and corrective action plans to the Audit Findings and Recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

1. \$29 MILLION SPENT SINCE 2000 WITHOUT DETERMINING WHETHER THE PROGRAM MEETS THE VOCATIONAL NEEDS OF THE BLIND

During the audit, it was discovered that the Business Enterprise Program (BEP or Program) did not have goals and measures to determine whether it is meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind.

Upon further inquiry, we determined that the Program has not had any goals and measures since the Program's inception.⁵ However due to the unavailability of records, auditors were unable to review periods further back than 2000.

Since 2000, the Program has spent more than \$29 million without establishing Program goals and measures. Without goals and measures, the Program cannot determine whether it is meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind.

\$29 Million Spent Since 2000

The Program spent more than \$29 million in federal funding and set-aside fees for operations since 2000.

⁵ November 14, 1978.



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According to self-reported information, 80 people (5.7 per year) have been trained and licensed to operate a food service or vending facility since 2000. Of that 80, 53 (3.8 per year) have actually been placed in a food service or vending facility to operate.

Taking total Program costs into consideration, it cost \$362,500⁶ to train each person. When looking at only the people who were ultimately given the opportunity to operate a facility, approximately \$547,170⁷ was spent on each person.

Program Does Not Know Whether It Meets Federal Regulations

Since the Program has not established any goals or performance measures, managers cannot determine whether they are meeting the vocational needs and maximizing business opportunities to provide a living for the legally blind. There is no measure to compare actual performance. For example, there is no way for Program managers to know whether training 80 people since 2000 and placing 53 of those is exceeding expectations, meeting expectations, or falling short of expectations.

Federal regulations⁸ state that the Program should “assure that the maximum vocational potential of such vendors is achieved and suitable employment is maintained within the State’s vending facility program.”

When asked why the Program has not established specific performance goals and measures, management stated that specific goals and measures have not been set because “we do not know how many locations might be developed or how many trainees will be interested.”

Program Goals and Objectives Should Be Defined and Achievements Measured

Best practices require management to establish goals and objectives for government programs. Specifically, the Government Accountability Office (GAO) states:⁹

“Management, with oversight by an oversight body, sets objectives to meet the entity’s mission, strategic plan, and goals and requirements of applicable laws and regulations. Management sets objectives before designing an entity’s internal control system. Management may include setting objectives as part of the strategic planning process.”

Furthermore, GAO states:¹⁰

“Management defines objectives in specific terms so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement... Management defines objectives in measureable terms so that performance toward achieving those objectives can be assessed. Measureable objectives are generally free of bias and do not require subjective judgments to dominate their measurement. Measureable objectives are also stated in a quantitative or qualitative form that permits reasonably consistent measurement.”

Recommendations: The Program should set clear, specific goals that are linked to and measured by performance measures so that decision-makers can evaluate the Program’s performance.

⁶ \$29 million divided by 80 individuals trained and licensed.

⁷ \$29 million divided by 53 individuals placed at a food service or vending facility.

⁸ 34 CFR §395.11.

⁹ GAO, *Standards for Internal Control in the Federal Government*, September 2014.

¹⁰ GAO, *Standards for Internal Control in the Federal Government*, September 2014.

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Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement.

Management should require the measures to be reported periodically, monitor the measures, and use the measures in decision making.

Department's Response:

The Division of Services for the Blind's Business Enterprise Program's mission, as set forth in the Randolph-Sheppard Act ("Act"), is to provide persons who are blind with business ownership opportunities including remunerative employment and self-support through the operation of vending and food service facilities on federal and other property. Enacted into law in 1936, the Act enhances employment opportunities for well trained and licensed blind persons to operate these facilities. The law was subsequently amended in 1954 and again in 1974 to ultimately ensure (through federal contracting set aside rules) individuals who are blind are afforded priority in the operation of vending businesses that are on federal property. This priority has broadened in most states through state laws to include state, county, municipal and private locations as well. Under the Randolph-Sheppard Act, state licensing agencies (in this case, the Division of Services for the Blind) recruit, train, license and place individuals who are blind as business owners and operators of vending facilities located on federal and other properties. The Act authorizes a blind individual licensed by the state licensing agency to conduct specified activities in vending facilities through permits or contracts.

The Division of Services for the Blind's objectives for the Business Enterprise Program are accomplished, in part, through collaboration with its vocational rehabilitation services. In accordance with federal regulation, the training is designed to assure the maximum vocational potential of blind business owners/vendors who may seek to participate in the Business Enterprise Program. The Division also provides vocational rehabilitation training authorized by the Rehabilitation Act (34 CFR 395.11) to prepare legally blind individuals for suitable employment, potential business opportunities and possible placement within the Business Enterprise Program. Individuals desiring placement as operators in the Business Enterprise Program must complete specified vocational rehabilitation training and are assessed by their assigned vocational rehabilitation counselor for participation in the Program. Upon completion of the training modules and with the recommendation of the relevant trainer(s), individuals are licensed and encouraged to apply for placement as a self-employed operator in the Business Enterprise Program.

Placement in the Program is dependent on the availability of vending business opportunities located within federal and state facilities. The Business Enterprise Program selects licensed individuals through a competitive application process for placement and available operating locations.¹ Funding for the Program not only covers the costs of training but provides for the purchase, setup and maintenance of equipment for the operating facilities and the oversight and monitoring of the locations' business operations.² Training and development costs for potential operators are expended through the Division of Services for the Blind's vocational rehabilitation fund but are not a part of the Program costs. All operators are self-employed and sign an operating contract with the Division of

¹ In order to ensure a competitive application process, training is provided to more individuals than the number available vending business opportunities.

² The Division's reference to the fact that the total Program costs include these other expenses in addition to the cost of training individuals is important in light of the calculation of the cost to train each person and the amount spent on each person who were given the opportunity to operate a facility in the Audit Findings and Recommendations.

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Services for the Blind. These operators pay set-aside fees to the Division on a monthly basis in accordance with federal regulations. Currently this amount is 17% of their monthly net income. These funds are used to match federal funding for the administration of the Business Enterprises Program.

Program expenditures for the stated audit period of July 1, 2012 through June 30, 2014 were approximately \$5.8 million, which included \$1.4 million provided by set-aside fees paid from operator profits.³ During the audit period, Vocational Rehabilitation Services trained and licensed 14 individuals for placement in the BEP program. The total training cost for the 14 individuals was \$461,891.57 or an average of \$32,992.25 to train each person. It should be noted these are the amounts spent for the individuals' entire vocational rehabilitation case not just for Business Enterprise Program Training. Vocational Rehabilitation Services, paid for under Title I of the Rehabilitation Act, covers the range of rehabilitation services, including comprehensive case management and support, vocational evaluation, work adjustment, on the job training and evaluation, job placements, assistive technology, job coaching etc.

In summary, the Division of Services for the Blind's Business Enterprise Program's objectives are aligned with the mission of the Randolph-Sheppard Act. Furthermore, the Program, in collaboration with the Division of Services for the Blind rehabilitation services, provides a pool of candidates from which available opportunities are filled; and, in fact, all available opportunities have been filled by the Division of Services for the Blind. While it is difficult to establish goals for training a specified number of individuals due to the variability in the number of available trainees and vending business opportunities for placement year-over-year, the Division of Services for the Blind agrees that enhanced documentation of specific goals and measures related to operator performance would improve management's decision making processes. The Division will establish, document, track and periodically evaluate more specific program goals and measures to ensure the Program maximizes business opportunities to provide a living for the legally blind.

AUDIT FINDINGS AND RECOMMENDATIONS

2. INEFFECTIVE OVERSIGHT INCREASED RISK OF FACILITY MISMANAGEMENT

The Business Enterprise Program's (BEP or Program) oversight of licensee operated food and vending operations was ineffective. More than half of the scheduled oversight activities were not performed, and those that were performed were not performed in accordance with BEP's policies and procedures.

The lack of oversight increased the risk that more than \$30 million¹¹ of operator generated revenue was misreported and the associated set-aside fees were not calculated correctly.

Furthermore, because oversight activities were not performed effectively, there was an increased risk that poor operator or facility performance, such as poor recordkeeping and low facility profitability, would go unnoticed and uncorrected.

³ It should be noted that the Division complies with federal record retention guidelines directing the Division to dispose of operational records after five years.

¹¹ For state fiscal years 2012, 2013 and 2014.

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Oversight Activities Not Performed

The Program did not monitor food service facilities and operators in accordance with state guidelines or division policies.

The Program could not provide evidence that it monitored business operators for the period under audit. Analysis of BEP records showed that 206 of 340 (61%) of the required monitoring activities were not performed:

OVERSIGHT ACTIVITY	NOT PERFORMED	REQUIRED	%
Sanitation Inspections (Vending Only) ¹²	125	193	65
Recordkeeping Reviews	27	55	49
Compliance Monitoring Reviews	34	54	63
Financial Analysis and Operating Standards Reviews	14	32	44
Total	200	334	60

Deficiencies Noted in Oversight Activities

For the oversight activities that were performed by the Program, deficiencies were noted in two separate analyses.

First, auditors identified errors in the Program's oversight activities. Auditors sampled Program oversight activity documentation and found that:

- Ten of 28 (36%) Recordkeeping Reviews¹³ had supporting invoices or receipts that did not agree with reported financial information with no documentation that the issues were resolved.
- Three of 18 (17%) Financial Analysis and Standards (FAOS) Reviews¹⁴ contained gross profit percentages that were not properly calculated.

Second, auditors identified deficiencies in operator documentation that had not been discovered by the Program's oversight activities. Auditors sampled operator D-Sheets¹⁵ and found that:

- Forty-eight of 60¹⁶ (80%) monthly operator D-Sheets lacked at least one piece of supporting documentation¹⁷ for the revenues and/or expenses reported or contained supporting documentation that did not agree with D-Sheet total. Revenues and expenses reported on these 48 D-sheets totaled \$599,784 and \$150,620, respectively.
- Eight of 60 (13%) monthly operator D-Sheets did not have any documentation to support the amounts reported. Total sales and expenses reported on these eight D-sheets totaled \$45,551 and \$15,615, respectively.

¹² BEP is only responsible for inspections of vending facilities. Sanitation inspections for food service facilities are the responsibility of local health departments and federal entities.

¹³ Performed annually to determine if Operators are in compliance with Program recordkeeping guidelines and federal and state regulations.

¹⁴ Performed bi-annually as a means for evaluating operating facilities and providing a basis for operating standards.

¹⁵ "D-Sheets" are summary reports of income and expenses that Operators are required to submit to the Department's Controller's Office each month. The D-Sheets report revenues, expenses, net proceeds, and the 17% set-aside assessment amount.

¹⁶ Across 36 Business Operators.

¹⁷ Supporting documentation includes daily sales reports, cash register tapes, and receipts for food and soft drink purchases.

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Set-aside Fees at Risk

Because oversight activities were not performed effectively, there was an increased risk that the more than \$30 million¹⁸ of operator generated revenue was misreported, which could cause incorrect calculations of the required operator set-aside fee amounts.

Set-aside fees are an assessment made by the Program on the net proceeds of each food service and vending facility. Funds generated by the assessment can only be spent for such items as equipment, management services, and assuring a fair minimum return (wage) to vendors.

When there is inadequate or incorrect documentation to support the calculation of the required operator set-aside fee amounts, there is an increased risk that some operators are not paying the amount of set-aside fees that they should and that set-aside funds¹⁹ will not be available for necessary program expenditures.

Poor Performance Goes Unnoticed

Because oversight activities were not performed effectively, there was an increased risk that poor operator or facility performance - such as poor recordkeeping and low facility profitability - would go unnoticed and uncorrected. When management is not aware of underperforming operators and facilities, the opportunity to improve the performance of the operator or replace the underperformer with another licensed operator is lost.

The "Manual for Food Service Facility Operators" states that "performance against standards is a major part of our process to transfer or promote an Operator" and that monitoring is an important task of the Business Enterprise Representatives.

No Effort to Ensure Oversight Occurs

Required oversight activities were unorganized and insufficient because Program management did not ensure that activities were performed and completed effectively.

Management was unaware of where monitoring activities occurred and where they did not and did not review activities to ensure activities were performed accurately and effectively.

There was no centralized tracking tool or management report that ensured oversight activities occurred at each facility as required.

In order to determine what reviews were performed, auditors had to ask each Business Representative²⁰ which facilities they oversaw and what monitoring activities they performed.

Program Policies Require Oversight

The policies and procedures for conducting monitoring activities are detailed in the "Manual for Food Service Facility Operators" (Manual). The Manual states that "performance against standards is a major part of our process to transfer or promote an Operator" and that monitoring is an important task of the Business Enterprise Representatives.

¹⁸ For state fiscal years 2012, 2013 and 2014.

¹⁹ Set-Aside fees of \$1.5 million dollars were reported as collected during our audit scope.

²⁰ Business Representatives are responsible for monitoring operators and facilities.

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The Manual identifies the four major monitoring activities to be performed and at what intervals. These activities consist of quarterly sanitation inspections, bi-annually FAOS reviews, and annually recordkeeping and compliance reviews. Forms documenting each review are to be maintained in each operator's file.

Recommendation: The Program should monitor facilities in accordance with its defined schedules as stated in the "Manual for Food Service Facility Operators." Specifically, a tracking tool should be created to ensure that all required monitoring reviews occur as required.

The Program chief or a designee should periodically review monitoring activities to ensure they are completed accurately.

Division Response:

The Department agrees that the oversight and monitoring activities of the Division of Services for the Blind's Business Enterprise Program (BEP) must be strengthened and it has already taken a number of steps to strengthen the Division and Program. The Deputy Secretary of Human Services has met with Division and Program staff to set expectations and has accepted the resignation of the Program Director. New interim leadership for the program is already underway and will be identified within the next 30 days. In addition, she has directed the Department's new Senior Director for Employment Services to evaluate the Business Enterprise Program operations of the Division. This evaluation will include an assessment of current policies/procedures, financial and program monitoring mechanisms and general oversight of the Program.

Under the direction of the Department's Senior Director for Employment Services, the Division will develop a tracking tool to ensure that the required reviews, inspections and financial analysis are performed timely and adequately monitored for compliance and completeness. In addition to the tracking tool, the Division will pursue efforts to upgrade the technology currently available to the monitoring staff to enable them to perform their jobs more effectively. The Department's Senior Director for Employment Services and the Director of the Division of Services for the Blind will periodically inspect monitoring reviews to ensure adequate and complete documentation is submitted.

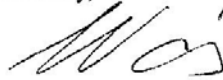
The Division acknowledges there were occurrences noted during the audit that Business Enterprise Program operators did not maintain required monthly receipts for purchases due to isolated circumstances. In one instance, the operator lost records while moving his operation from one location to another. In another instance, the widow of a deceased operator was unable to locate the records. There were also records unavailable from two operators that had been previously removed from the Program due to lack of compliance. These operators were uncooperative with requests to produce the records. The Division will recommend additional requirements for Business Enterprise Operators' financial reporting, if needed, to the Elected Committee of Blind Vendors. The Division will establish procedures to strengthen reporting requirements and develop a process to review operators' monthly report submissions for accuracy and validity of supporting documentation. It is envisioned that enhanced technology in monitoring and reporting will prevent the loss of information and assist program leadership to assess the status of the program goals and objectives in real time.

The anticipated completion date for the above corrective action is December 31, 2015.

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We greatly appreciate the professionalism of your review staff and the analysis and recommended corrective actions provided in your report. If you need any additional information, please contact Mary R. Johnson at (919) 855-3738.

Sincerely,



Aldona Vos, M.D.

AZW:mrj

cc: Sherry Bradsher, Deputy Secretary for Human Services
Matt McKillip, Senior Policy Advisor
Eddie Weaver, Director, Division of Services for the Blind
Emery E. Milliken, General Counsel
Laketha M. Miller, Controller
Claudia Horn, Senior Director of Employment Services
Chet Spruill, Director, Office of Internal Audit
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