

**PERFORMANCE AUDIT  
OF THE  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
DIVISION OF SERVICES FOR THE BLIND**

**DECEMBER 1997**

## AUDITOR'S TRANSMITTAL

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December 31, 1997

The Honorable James B. Hunt, Jr., Governor  
Senator Marc Basnight, President Pro Tempore  
North Carolina Senate  
Representative Harold J. Brubaker, Speaker  
North Carolina House of Representatives  
Dr. H. David Bruton, Secretary  
Department of Health and Human Services  
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of the *Department of Health and Human Services, Division of Services for the Blind* as mandated by the 1997 General Assembly in Senate Bill 352, Section 11.61. The objectives of the audit were to identify areas where the effectiveness and efficiency of program operations could be improved in the areas of operating policies, practices, control activities, and current organizational structure and staffing.

This report consists of an executive summary, program overview, and operational findings and recommendations. Management of the Department and the Division have reviewed a draft copy of this report and their written comments are included.

We wish to express our appreciation to the Secretary and his staff for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,



Ralph Campbell, Jr.  
State Auditor

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# EXECUTIVE SUMMARY

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We have conducted a performance audit of the Division of Services to the Blind (DSB), within the Department of Health and Human Services (Department). The audit was mandated by the 1997 General Assembly in Senate Bill 352, Section 11.61. The Department has been given statutory responsibility under Chapter 111 of the General Statutes for the operation of all programs associated with the blind and visually impaired citizens of the State. This responsibility has been delegated to the Division of Services for the Blind. DSB provides services to all legally blind and visually impaired North Carolinians. As defined in GS §111, a visually handicapped person is one who is “. . .totally blind or whose vision with glasses is so defective as to prevent the performance of ordinary activity for which eyesight is essential.”

DSB has divided the State into four general areas in which there are located seven district offices, offering services in local communities. A rehabilitation center for the blind in Raleigh provides direct training to clients. Other direct training is provided through the purchase of service agreements with Industries for the Blind organizations located throughout the State. Services are also purchased from community colleges, universities, and other private service providers. The scope of the audit encompassed all aspects of the operation of the Division of Services for the Blind.

The draft report was reviewed by Department and DSB management. Their response is included as Appendix A, page 42.

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# EXECUTIVE SUMMARY

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

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North Carolina GS §147-64 empowers the State Auditor with authority to conduct performance audits of any state agency or program. Performance audits are reviews of activities and operations to determine whether resources are being used economically, efficiently, and effectively.

This performance audit of the Division of Services for the Blind (DSB), within the Department of Health and Human Services, was mandated by the 1997 General Assembly in Senate Bill 352, Section 11.61. The State Auditor was directed to conduct a performance audit to address, but not be limited to, the financial management of the Division, to include the Governor Morehead School.

Given this mandate, our specific objectives were to:

- determine the mission, goals and purposes of the major programs at DSB to determine target populations;
- examine the organizational structure at DSB and how it relates to the major programs;
- examine the accounting and reporting systems, specifically to understand what constitutes a “client;” and
- examine the educational and vocational rehabilitation programs, specifically to determine requirements for participation.

The scope of the audit encompassed all aspects of the operation of the Division of Services for the Blind, with particular emphasis on the major programs of Medical Eye Care, Independent Living Services, Education and Business Enterprises/Employment. Additionally, the Department of Health and Human Services’ Controller’s Office and Personnel Office were included to the extent necessary to conduct our review of DSB’s operations.

During the period September 23, 1997, through October 31, 1997, we conducted the on-site fieldwork for the audit of DSB. In order to achieve our objectives, we employed various auditing techniques which adhere to the generally accepted auditing standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States. These techniques included:

- review of existing General Statutes and North Carolina Administrative Code as they relate to DSB;
- on-site, in-depth interviews with 42 members of staff;
- site visits to 5 area and district offices and interviews with field staff;
- interviews with all current members of the Commission for the Blind;
- identification and review of internal control procedures for DSB sections relative to accounting and reporting functions, and analysis of financial data;
- review of existing planning documents, organizational charts, policies and procedures, contractual arrangements, and financial data;
- sample of data contained in DSB databases to test validity;
- examination of staffing levels, workloads, and time records;
- review of various other studies and reports on DSB operations; and
- review of data from other states for comparative purposes.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

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This report contains the results of the audit as well as specific recommendations aimed at improving the operations of DSB in terms of economy, efficiency, and effectiveness. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the system or lack of compliance. Also, projection of any of the results contained in this report to future periods is subject to the risk that procedures may become inadequate because of changes in conditions and/or personnel, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

## BACKGROUND INFORMATION

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### FEDERAL AUTHORITY

#### *Barden-Rehabilitation Act:*

The Barden-Rehabilitation Act is the federal act authorizing the North Carolina Department of Health and Human Services (Department) to make the necessary rules and regulations for delivery of services to the blind. The Department is empowered to assist the blind in becoming self-supporting through rehabilitation and through assistance in obtaining employment, including employment in business enterprises operated by the Department.

#### *Randolph-Sheppard Bill (H.R. 4688):*

The Randolph-Sheppard Act<sup>1</sup> was enacted to promote uniformity of treatment of blind vendors by all federal agencies, establish consistent guidelines for all state licensing agencies, ensure fair treatment of blind vendors, increase economic opportunities for the blind, stimulate the blind to greater efforts in striving to make themselves self-supporting, and give authority to the blind to operate vending facilities on any federal property.

### STATE STATUTORY AUTHORITY

#### *Commission for the Blind:*

The Commission for the Blind was created by GS §143B-157 through 160. The statutes give the Commission the power and duty to adopt rules governing the conduct of the State's rehabilitative programs for the blind necessary to carry out the provisions and purposes of the statute. The Commission consists of eleven members appointed by the Governor for terms of six years. The Commission meets at least once each quarter. Specifically, the overall function, purpose, and duty of the Commission is to:

- adopt rules that are necessary and desirable for the programs administered by the Department of Health and Human Services;
- adopt rules that are required by the federal government for grants-in-aid for rehabilitative purposes for the blind that may be made available to the State, in order that the State and its citizens may benefit from such grants-in-aid;
- review, analyze, and advise the Department regarding the performance of its responsibilities under the federal rehabilitation program as it relates to the services to the blind;
- advise the Department regarding preparation of applications, the State Plan, the strategic plan, amendments to these plans, the State needs assessments, and the evaluations required by the federal rehabilitation program;
- conduct a review and analysis of the effectiveness of, and consumer satisfaction with, the functions performed by the Department and other public and private entities responsible for performing functions for individuals who are blind or visually impaired, including vocational rehabilitation services;

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<sup>1</sup> Authority found in the United States Code Service Title 20, Chapter 6A, Section 107.



## BACKGROUND INFORMATION

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- prepare and submit an annual report to the Governor, the Secretary, and the federal rehabilitation program; and
- coordinate with other councils within the State who have direct impact upon services to the blind and visually impaired.

### *Professional Advisory Committee:*

GS §143B-161 creates the Professional Advisory Committee to advise the Commission for the Blind on matters concerning or pertaining to the procurement, utilization, and rendering of professional services to the beneficiaries of the Commission's aid and services. The Committee is composed of nine members appointed by the Governor for three year terms. There are three members representing licensed physicians whose practice is limited to ophthalmology, three optometrists, and three opticians. All members are nominated by their respective state professional associations.

### *Consumer and Advocacy Advisory Committee for the Blind:*

GS §143B-163 creates the Consumer and Advocacy Advisory Committee for the Blind consisting of fourteen members representing various groups and associations for blind and visually impaired persons. This Committee's responsibility is to make a continuing study of the entire range of problems and needs of the blind and visually impaired population of the State and make specific recommendations to the Department as to how these may be solved or alleviated through legislative action. The Committee examines national trends and programs of other states, as well as programs and priorities in North Carolina and makes recommendations concerning methods of preventing blindness and restoring vision. All entities which supervise, administer, or control any program for or affecting citizens who are now or will become visually handicapped or impaired must inform the Consumer and Advocacy Advisory Committee of any proposed change in policy, program, budget, rule, or regulation in order that the Committee might review and comment on those changes.

### *Governor Morehead School Board of Directors:*

The Governor Morehead School (GMS) Board was created by GS §143B-176.1 with the power and duty to adopt rules and establish standards to be followed in the conduct of the GMS operations and the professional care of children enrolled to the School. The statute further charges the school to be as nearly self-supporting as consistent with the purposes of its creation. The GMS Board of Directors consists of eleven members, each appointed by the governor for a six year term.

### *Department of Health and Human Services:*

The Department of Health and Human Services (Department) has been given statutory responsibility under Chapter 111 of the General Statutes for the operation of all programs associated with the blind and visually impaired citizens of the State. Specifically, it is the Department's responsibility to:

## BACKGROUND INFORMATION

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- maintain a complete register of the blind in North Carolina describing the condition, cause of blindness, capacity for education and industrial training of each, among other pertinent facts;
- maintain bureaus of information and industrial aid to assist the blind in finding employment and to teach them trades and occupations, and to assist them in disposing of products from their home industry;
- establish training schools and workshops for the blind, to employ suitable blind persons in the schools and workshops, and to devise means for the sale and distribution of the products created;
- aid individual blind persons or groups of blind persons to become self-supporting by furnishing material or equipment to them and assisting them in the sale of their products;
- give direct money payments to the needy blind, with approval of the Commission of the Blind;
- establish and operate a rehabilitation center for the blind to assist them in mental, emotional, physical, and economic adjustment to blindness;
- receive grants-in-aid from the federal government under the Barden-Rehabilitation Act;
- conduct promotion visits with blind citizens and teach them in their homes;
- continue to make inquiries concerning the cause of blindness, to learn how many cases are preventable, and to take action on these findings;
- arrange for the examination of the eyes of blind or partially blind persons and secure and pay for medical and surgical treatment; and
- carry on activities to promote the rehabilitation and employment of blind through the operation of various business enterprises suitable for the employment of or operation by the blind.

The Department has established the Division of Services for the Blind to administer the various responsibilities as outlined in the General Statutes.

### *Division of Services for the Blind:*

The Division of Services for the Blind (DSB) offers a variety of services to empower individuals who are blind or visually impaired to achieve their maximum potential. DSB provides services to all legally blind and visually impaired North Carolinians. As defined in GS §111, a visually handicapped person is one who is “. . .totally blind or whose vision with glasses is so defective as to prevent the performance of ordinary activity for which eyesight is essential.”

## ORGANIZATIONAL STRUCTURE AND STAFFING

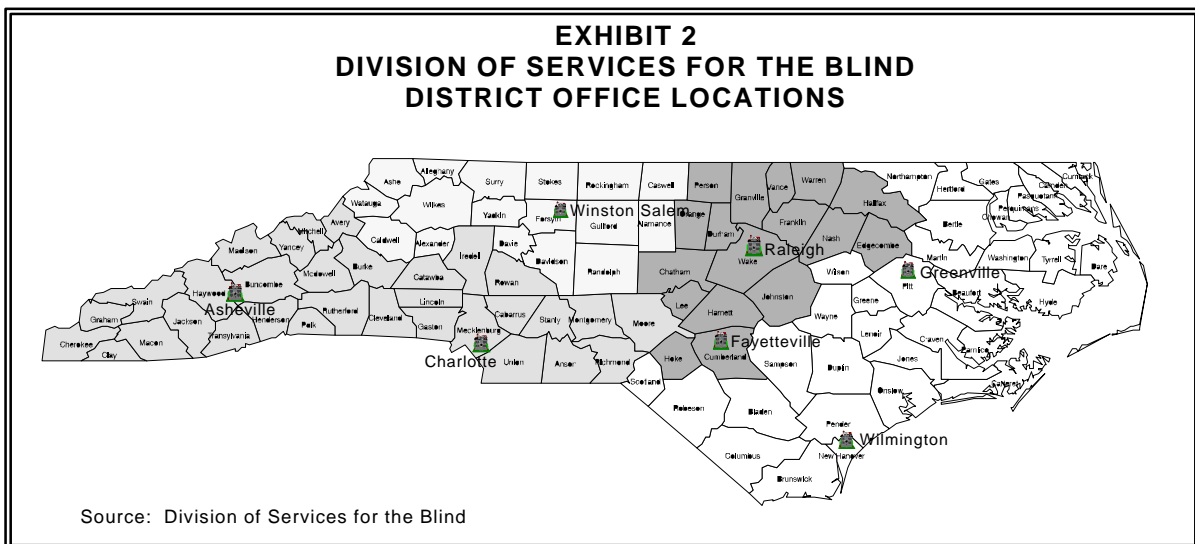
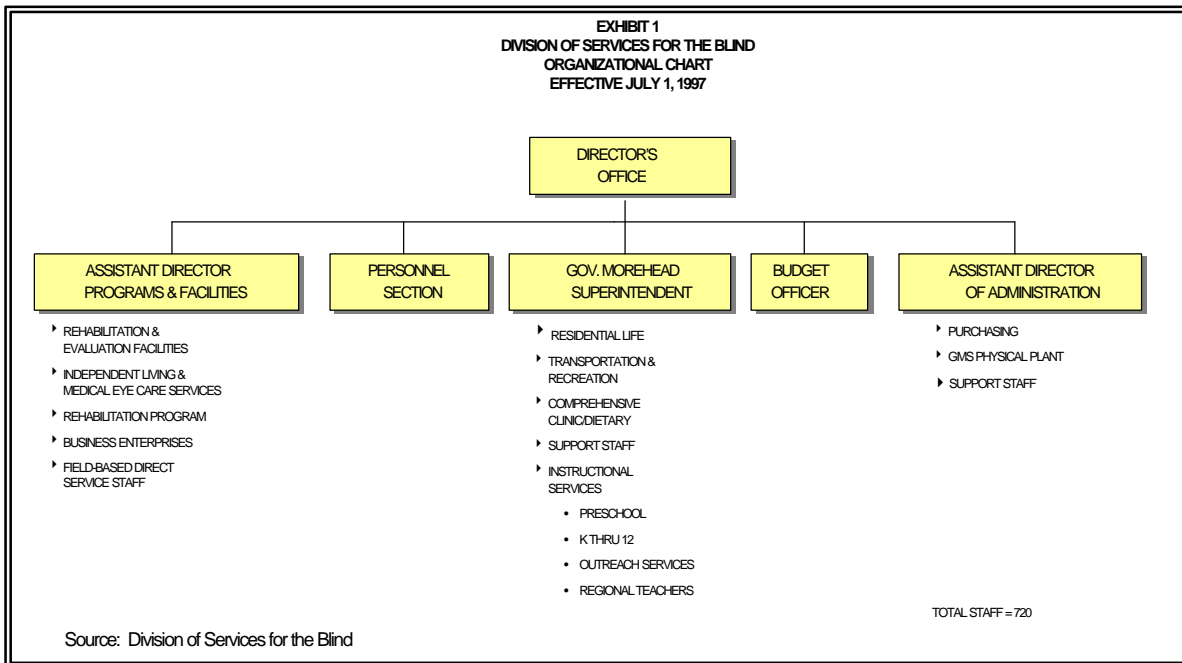
Total staff for DSB consists of 720 positions located throughout the State. Of these, 194 are assigned to the Governor Morehead School. There are 127 management and support staff in the division offices, including maintenance and dietary staff. There are 399 staff located in the area, district, and county social services offices, of which 211 permanent part-time positions are for personal care services. DSB has divided the State into four general areas in which there are located seven district offices. Although the organizational structures vary among the four areas, the following services are offered in each:

# BACKGROUND INFORMATION

- Social Services (Independent Living Services)
- Rehabilitation Services (Counseling and Placement)
- Medical Services
- Orientation and Mobility Services
- Children’s Program Services
- Business Enterprises (Employment)

The seven district offices offer services in local communities, while a rehabilitation center for the blind in Raleigh provides direct training to clients. Other direct training is provided through the purchase of service agreements with Industries for the Blind organizations located throughout the state. Services are also purchased from community colleges, universities, and other private service providers.

Exhibit 1 depicts the organizational structure in place during the audit. This organization features the administrative headquarters located in Raleigh and seven area office locations as shown in Exhibit 2. On the following pages we briefly describe the major functions of each section as shown on the organizational chart.



## BACKGROUND INFORMATION

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The **Administrative Services** Section of DSB, headed by an Assistant Director, provides overall management support services at the State and regional level, as well as those for the Governor Morehead School. Services provided include accounting, fiscal operation, and policy making to insure uniformity in the implementation and provision of services offered by DSB. Included in this section are the Business Office, the Purchasing Office and the Physical Plant operations for the Governor Morehead School Campus.

The **Programs and Facilities** Section of DSB is also headed by an Assistant Director. Included in this section are programs for business enterprises, rehabilitation, independent living and medical eye care services. These programs are designed to provide services which promote sight conservation, independent living skills, and employment to the clients served by DSB.

### PROGRAM OVERVIEW

DSB provides services to approximately 56,000 clients annually. The major service programs provided by DSB are shown in Table 1.

#### *Medical Eye Care :*

Blindness often results from retinal disorders, cataracts, or glaucoma. The Medical Eye Care program was established to help **prevent** blindness, and where possible, to restore vision in qualified low-income individuals who have suffered loss of sight. Preventive and corrective services under this program include:

- Eye examinations, treatment, and surgery
- Glaucoma screenings
- Children’s vision screening
- Low-vision evaluations
- Correction of limited vision with low-vision aids or glasses
- Eye care education

DSB records show that last fiscal year, approximately 13,000 people were screened for glaucoma and approximately 11,000 children received vision screenings from DSB nurses. (See Table 4, page 21.)

#### *Personal Care Services:*

The Personal Care Services program is a component of the Medical Eye Care Section. The program provides personal in-home care to Medicaid eligible blind or visually

<b>TABLE 1 DIVISION OF SERVICES FOR THE BLIND CLIENTS SERVED AND EMPLOYEES BY PROGRAM AREA FOR FY96-97</b>		
PROGRAM AREA	CLIENTS SERVED	DSB EMPLOYEES
Medical Eye Care	42,888	11
Personal Care Services	119	211
Special Assistance for the Blind	226	1
Independent Living Services	5,927	71
Vocational Rehabilitation	5,748	93
Business Enterprises	102	12
Governor Morehead School	1,118	194
Management & Support		127
<b>TOTALS</b>	<b>56,128</b>	<b>720</b>
Source: Division of Services for the Blind		

## BACKGROUND INFORMATION

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impaired persons with medical needs. Without these personal services, the individual would likely require institutionalization, which would require more state and federal funding. As of July 1, 1997, there are 76<sup>2</sup> permanent part-time positions providing personal services to approximately 120 clients.

### *Special Assistance for the Blind:*

The Special Assistance for the Blind program has no service requirements. Rather, it assists blind persons living in rest homes to meet their minimum financial needs. Monthly financial assistance payments are made to all eligible recipients in rest homes at the current legislatively authorized rates. Additionally, funding is provided for non-Medicaid covered expenses of eligible individuals. For FY97-98, 226 clients are receiving payments from the program. The program's expenditures for FY96-97 were \$1.1 million.

### *Independent Living Services:*

The Independent Living Service program provides opportunities to persons of all ages who are blind or visually impaired to learn daily living skills and obtain the assistance they need to become self-sufficient. Much of the instruction is provided in the person's home. Independent Living Services include:

- Adjustment Services - counseling, personal care skills, and training in home management
- In-home Aide Services - assisting with meal preparation, home cleaning, and errands
- Health Support Services - counseling on health, nutrition, and diet
- Family Adjustment Services - providing information and support to help family members adjust to the changes necessary to support the individual's independence
- Children's Services - working with children, parents, teachers, and others to help the child develop independent living skills
- Safe Travel Skills - teaching individuals to use sighted guide, white canes and safety techniques to travel independently

### *Vocational Rehabilitation:*

The Vocational Rehabilitation program assists the blind and visually impaired in maintaining, returning to, or securing competitive employment in activities which allow them to become productive members of society. To accomplish this responsibility, the program:

- Provides evaluation, vocational training, physical restoration, maintenance, transportation, and job placement;
- Prepares clients to take advantage of vocational training, higher education, and/or employment by providing adjustment to blindness services and training services at DSB's rehabilitation center; and
- Seeks client involvement through client satisfaction surveys for the rehabilitation program.

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<sup>2</sup> There were 211 permanent, part-time positions assigned to the Personal Care services program at the time of the audit; however, 135 of these positions were vacant.

## BACKGROUND INFORMATION

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A variety of programs is offered by DSB to provide rehabilitative services for individuals who are blind or visually impaired. Rehabilitation counselors work one-on-one with participants to determine which rehabilitation programs they need to become self-sufficient. These programs and services may include:

- Rehabilitation Guidance and Counseling
- Vocational Evaluations
- Work Adjustment Program
- Supported Employment Services
- Adjustment to Blindness
- Independent Living Rehabilitation Services
- Business Enterprises Program
- Adaptive Technology Services
- Rehabilitation Engineering Services
- Job Placement and Follow-up Services

### *Specialized Employment Services:*

Supported Employment Services help persons who are blind, visually impaired or multi-handicapped find and maintain employment in competitive, integrated work settings. Individuals qualifying for these special services are the most severely disabled who need multiple services and long term follow-up to become successfully employed and maintain employment. DSB typically uses the job/coach model which provides a person to work with the blind individual on a one-on-one basis until they can work independently. After training, follow-along services are provided to ensure continued success.

The Business Enterprises (BE) Program is one type of employment service offered by DSB. The BE Program is designed to identify and train blind or visually impaired individuals in the operation of vending facilities located primarily on state and federal properties.

### *Education:*

The Governor Morehead School (GMS) is the only state supported residential school designed to serve children with severe visual impairments. It is located in Raleigh on a 75-acre campus much like that of a small college. Education services are divided into preschool, standard elementary and secondary programs, and modified curriculum emphasizing communication, self-help, vocational, and living skills for students with developmental disabilities. The goal of the GMS preschool program is to help children with visual impairments gain skills and self confidence. The *preschool* program serves visually impaired children from birth through age four, it being critical to begin contact with these children as early as possible. The preschool services are community based and teachers visit the children in their homes or in their community based day care centers. Parents also receive training and support so they can take an active role in their child's growth and progress. The *secondary education* program serves both college-bound students and those who will continue to require support in vocational and living skills throughout adulthood. The *outreach* program focuses on coordinating efforts which link

## **BACKGROUND INFORMATION**

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the Governor Morehead School with local education agencies serving children who are blind or visually impaired, providing liaison between GMS and community agencies, and coordinating school staff providing diagnostic services, consultative, educational evaluation, and technical assistance to visually impaired students in local school systems.

The Comprehensive Clinic provides medical and therapeutic services to the GMS students. Services include occupational therapy, speech-language therapy, and psychological evaluations. Social work and health/medical services provide support to the various school components. The clinic also supervises the Dietary Department responsible for providing daily meals to the GMS students and faculty, and maintains the Record Center for current and past students.

### *Management and Support Services:*

This element of DSB provides management and administrative support services for the components of the division including the Governor Morehead School. These services include budget/accounting service, LAN/information systems support, policy development, implementation and interpretation of policies and procedures, and maintenance of the statewide Blind Register.

## **BUDGETARY DATA**

Table 2, page 13, summarizes the financial data for General Fund Revenues for DSB for fiscal years 1992-93 through 1996-97. A review of the budgetary data reveals that there has been little change in program expenditures and revenues in the past five years. Revenues, averaging approximately \$17.4 million per year, are primarily from four sources: Rehabilitation Service Basic Support Grant, county funds, Personal Care Services, and DHHS Social Service Block Grant funds. The Rehabilitation Service Basic Support Grant provides approximately 50% of revenues each fiscal year. The transfer of funds from the Department of Health and Human Services for the Social Services Block Grant reimbursements makes up 19% of revenues. County funds have decreased over the past five years as a result of a decrease in clients served. Revenues for Personal Care Services have decreased due to greater availability of private providers who can meet the needs of clients. In addition to these revenues, approximately \$15 million of State appropriations are required to support a \$32 million annual budget which has remained relatively constant during the past five years. Beginning on page 16, we briefly discuss the funding sources for each of the programs in DSB. Exhibit 3, page 15, shows the source of funds for FY 96-97, and Exhibit 4 shows funding by purpose for the same period.

## BACKGROUND INFORMATION

**TABLE 2  
DIVISION OF SERVICES FOR THE BLIND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR GENERAL FUNDS**

	FYE 6/30/93	FYE 6/30/94	FYE 6/30/95	FYE 6/30/96	FYE 6/30/97
<b>REVENUES</b>					
Rehabilitation Service Basic Support	\$ 8,667,096.00	\$ 8,002,717.00	\$ 9,395,906.00	\$ 8,158,843.00	\$9,626,072.75
Rehabilitation Training	44,876.00	37,710.00	22,654.00	161,829.00	153,587.50
Rehabilitation Services-Severely Disabled	39,051.00	0.00	(103.00)	0.00	0.00
Supported Employment	158,368.00	150,239.00	46,306.00	242,127.00	173,673.28
Social Security Funds	0.00	386,755.00	0.00	0.00	0.00
Independent Living	77,803.00	60,820.00	4,006.00	82,905.00	64,069.01
Older Blind Grant	127,126.00	0.00	41,213.00	150,849.00	266,847.87
County Funds	1,122,528.44	1,222,972.15	1,177,559.23	1,069,871.76	945,939.09
Interagency Transfers	0.00	0.00	46,231.61	228,254.00	71,990.73
DPI-Remediation	2,775.00	2,876.00	2,445.00	2,270.00	2,270.00
DHR-Social Service Block Grant Reimbursement	3,202,145.00	3,390,989.00	3,159,479.39	3,205,808.73	3,358,466.05
Interagency Grants/Allocation	0.00	350,000.00	0.00	0.00	0.00
Transfer from Social Services Critical Needs	0.00	0.00	0.00	416,750.00	0.00
D D Council Funds	48,731.84	86,316.14	19,620.00	0.00	0.00
Child Nutrition and Supp	29,420.40	38,704.15	33,779.92	37,926.09	43,633.22
NETP Mini Grant	0.00	1,000.00	0.00	0.00	0.00
Cultural Resources-Library	2,366.09	7,233.91	1,576.51	4,013.90	0.00
ESEA Chapter 1H	0.00	0.00	0.00	8,163.00	0.00
Beg For Parents of Hearing	999.46	820.45	0.00	0.00	0.00
Space- Develop Disability	16,865.00	18,629.00	13,547.75	27,076.52	9,163.00
Space-Office of Rural Health	55,765.00	52,713.75	51,558.00	70,936.55	25,279.15
Space-Penland	0.00	0.00	0.00	9,258.32	1,851.66
Space-Division of Services for the Blind	351,133.00	435,170.33	103,824.77	601,853.13	183,928.05
Space-Developmental Evaluation Center	32,797.00	5,893.56	0.00	0.00	0.00
Space-Deaf and Hard Hearing	0.00	0.00	0.00	7,651.53	2,777.49
Transfer Federal Indirect Reserve	126,657.00	404,102.00	222,246.00	0.00	0.00
Non-Fed Share-Rent	24,409.08	15,652.63	0.00	73,232.00	0.00
Non-Fed Share of Meals	11,728.00	16,045.20	0.00	0.00	0.00
GMS Cottage Bedding	0.00	8,533.84	0.00	0.00	0.00
Prior Fiscal Year Transfer	947,344.00	445,680.00	637,343.00	133,678.00	578,330.00
Vocational Education	0.00	0.00	0.00	0.00	5,629.00
Imprest Cash	13,545.00	14,200.00	14,060.00	14,060.00	8,281.15
Cafeteria	72,058.54	119,098.15	56,993.29	0.00	0.00
Food and Vending	0.00	0.00	0.00	113,261.13	71,535.15
Sale-Vocational Products	88,997.19	115,519.06	32,545.16	(173.39)	0.00
Set-Aside	0.00	0.00	0.00	0.00	0.00
Clinic Reimb - Medicaid	1,327.03	1,585.83	1,195.49	306.25	0.00
Clinic Reimb -Rehabilitation	467.74	0.00	0.00	15.00	0.00
Clinic Reimb-Co Payments	1,225.00	1,390.00	1,060.00	32,730.82	478,888.70
Personal Care Services Fund	1,480,755.41	1,319,206.43	1,017,840.89	745,722.27	207,718.08
Community Action Program	0.00	106.54	(213.08)	220.00	295.00
Third Party - Revenues	0.00	208.14	0.00	0.00	0.00
Lions Contribution	2,257.91	3,848.00	3,014.00	6,768.00	5,998.00
Sale of Equipment	5,000.42	2,849.39	9,824.16	9,714.74	1,810.00
Hospital Medical Benefit	6,029.38	454.22	(3,670.52)	0.00	0.00
Business Enterprises	141,920.31	324,413.61	273,930.70	0.00	124,660.51
Utilities-Employee Housing	10.00	0.00	0.00	0.00	0.00
Miscellaneous	65,223.22	151,521.75	182,157.00	443,406.20	581,053.84
Indirect Cost	464,009.17	1,301,942.26	820,437.79	292,746.56	292,509.00
Other Income	5,906.94	138.06	(689.81)	0.00	0.00
Escheats Payable	0.00	0.00	0.00	351.34	0.00
Payroll Interface Clearing	0.00	0.00	0.00	(195.46)	0.00
Accr-Sales Tax Payable	0.00	0.00	0.00	0.00	(930.93)
<b>TOTAL REVENUES</b>	<b>\$17,438,717.57</b>	<b>\$18,498,054.55</b>	<b>\$17,387,678.25</b>	<b>\$16,352,229.99</b>	<b>\$17,285,326.35</b>



## BACKGROUND INFORMATION

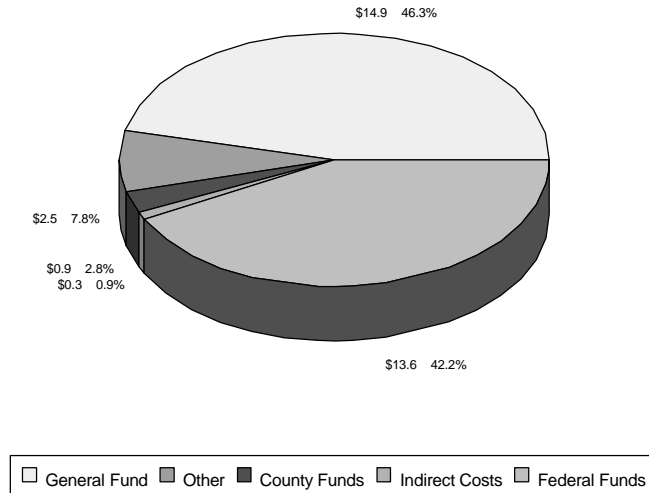
**TABLE 2 (concluded)**  
**DIVISION OF SERVICES FOR THE BLIND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR GENERAL FUNDS**

	FYE 6/30/93	FYE 6/30/94	FYE 6/30/95	FYE 6/30/96	FYE 6/30/97
<b>EXPENDITURES</b>					
Salaries, Overtime, Longevity	\$12,632,399.07	\$13,983,679.37	\$13,794,832.48	\$14,243,373.21	\$14,341,388.10
Stu Temp Wages	183,899.21	197,306.43	243,343.13	113,301.92	98,301.81
Awards to Emp, Med Benefits, Disability	268,385.97	193,801.09	114,585.73	103,155.21	331,948.64
Compensation to Bd Members	855.00	1,335.00	1,695.00	1,425.00	1,950.00
Retiremnt, SS, Staff Bene.,Hsp Contrib.	2,980,110.94	3,252,302.95	3,270,375.15	3,364,510.01	3,356,815.90
Contractual Services	289,486.57	358,582.11	385,817.18	674,487.04	918,047.44
Other Material & Supplies	41,319.11	35,203.12	75,143.70	119,717.69	98,565.61
Food- Institutional Use	250,633.66	187,845.07	111,277.77	0.00	
Educational, Drug, & Food Supplies	8,267.59	135,978.12	129,117.84	246,176.56	231,945.23
Maint & Repair Supplies	52,969.82	71,294.86	53,963.21	0.00	
Motor Vehicle Supplies	23,111.87	27,300.64	27,531.74	23,164.02	16,983.33
Office Supplies and Materials	54,856.35	77,695.81	108,333.30	126,001.49	86,818.87
Purchases for Resale	10,539.85	11,478.73	11,986.56	17,769.86	11,975.10
Heating & Utility Supplies	20,403.72	14,681.74	27,849.19	0.00	
Transportation Expenses	629,845.95	689,022.98	769,894.76	786,919.40	966,521.97
Telephone and Postage	205,817.83	228,125.61	247,746.23	0.00	
Utilities	342,374.39	376,388.00	330,699.47	374,176.40	314,630.93
Printing	47,182.31	48,265.82	30,184.13	0.00	
Repairs & Maintenance	91,496.80	147,201.60	228,107.32	130,001.05	236,074.29
Freight	3,102.52	2,940.72	3,216.06	0.00	
Advertising	783.16	518.17	532.63	0.00	
Data Processing	331,112.86	353,543.80	154,147.60	0.00	
Advertising, Emp Edu, and Other Svc.	179,924.27	168,937.06	189,736.79	150,590.48	136,066.97
Rent of Offices	490,801.81	578,465.52	229,453.86	1,068,887.65	699,624.58
Postage & Xerox Rental	3,147.46	5,522.62	4,179.76	0.00	
Service & Maint Contracts	37,884.15	34,583.70	42,590.18	47,426.63	41,126.44
Insurance Bonding	12,847.25	14,971.64	13,414.97	0.00	
Indirect Cost	463,105.00	1,301,403.00	820,101.00	292,509.00	292,509.00
Dues, Sub, & Other Admin	47,584.21	51,833.93	70,904.70	340,924.54	353,810.39
Office Furniture & Equip	46,169.17	109,358.35	260,854.69	847,404.06	474,736.20
Data Processing Equip	48,853.30	181,157.69	388,598.97	0.00	0.00
Educational Equipment	54,307.14	94,143.85	350,114.02	0.00	0.00
Trucks	0.00	0.00	58,017.25	0.00	13,690.50
Other Equipment	36,851.66	15,897.22	232,944.04	25,455.76	0.00
Books	39,876.60	85,230.67	82,622.09	0.00	37,782.03
Air Conditioning Contract	1,441.94	38,890.03	0.00	0.00	0.00
State Aid to Blind, County Equalization	12,000.00	12,000.00	12,000.00	12,000.00	0.00
Grants, State Aid	8,835,387.85	8,686,383.13	8,902,549.11	7,959,890.00	8,239,555.35
Non-Fed Sh-Rent & Transfer	1,137,138.08	731,177.67	512,830.00	0.00	566,256.56
Transfers	(52.94)	35,753.21	49,775.20	277,204.36	0.00
Reserve for Indirect Cost	0.00	390,027.00	222,246.00	0.00	0.00
Reserve for Imprest Cash	13,545.00	14,200.00	14,060.00	0.00	0.00
Agency Carry Forward	0.00	0.00	0.00	262,730.00	310,544.00
<b>TOTAL EXPENDITURES</b>	<b>\$29,929,766.50</b>	<b>\$32,944,428.03</b>	<b>\$32,577,372.81</b>	<b>\$31,609,201.34</b>	<b>\$32,177,669.24</b>
<b>TOTAL APPROPRIATION</b>	<b>\$12,491,048.93</b>	<b>\$14,446,373.48</b>	<b>\$15,189,694.56</b>	<b>\$15,256,971.35</b>	<b>\$14,892,342.89</b>

Source: Division of Services for the Blind

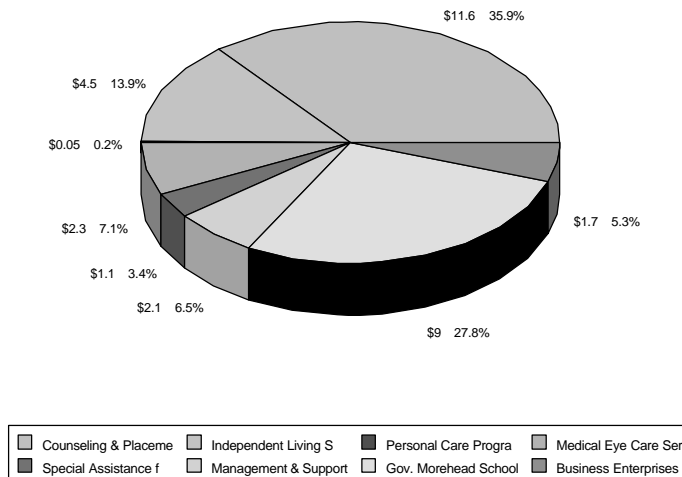
# BACKGROUND INFORMATION

**EXHIBIT 3**  
**DIVISION OF SERVICES FOR THE BLIND**  
**SOURCE OF FUNDS**  
**FOR THE YEAR 1996-97**  
**(in millions)**



Source: Division of Services for the Blind

**EXHIBIT 4**  
**DIVISION OF SERVICES FOR THE BLIND**  
**FUNDING BY PURPOSE**  
**FOR THE YEAR 1996-97**  
**(in millions)**

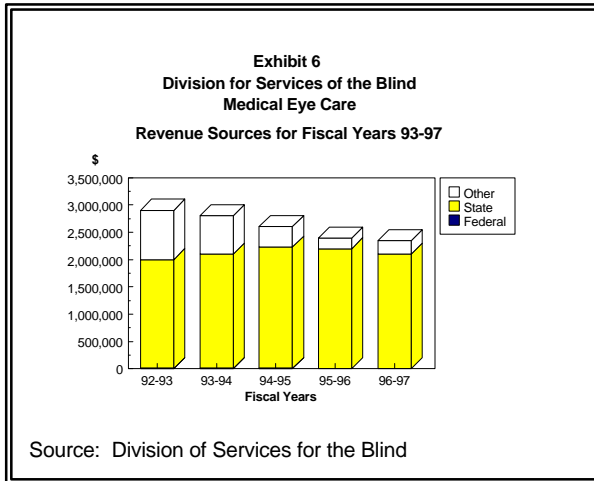
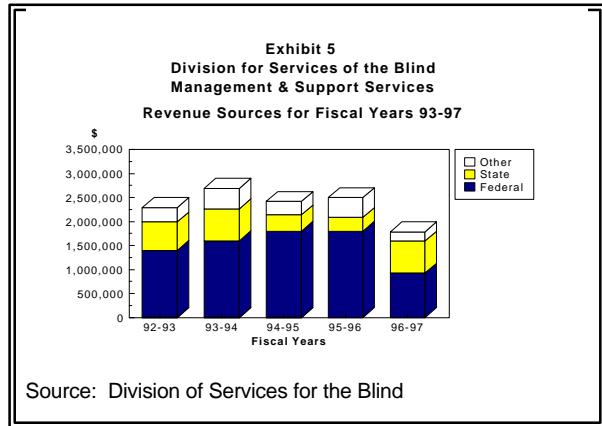


Source: Division of Services for the Blind

## BACKGROUND INFORMATION

### *Management and Support Services:*

Federal funds make up 60% of revenues averaging \$1.5 million each year. Other revenues include 23% State appropriations and 17% prior year transfers.

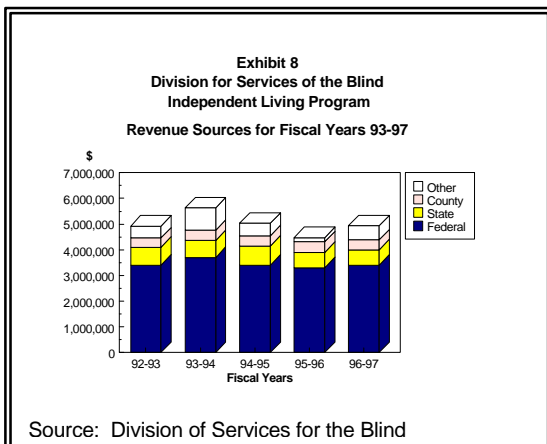
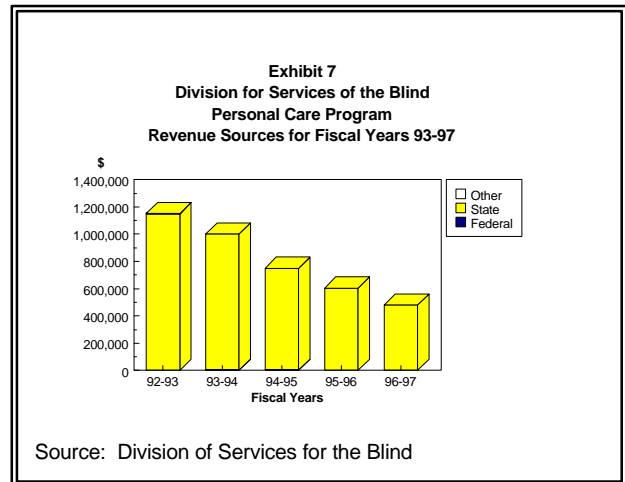


### *Medical Eye Care Services:*

Medical Eye Care Service revenues are comprised of 82% state appropriations and 18% personal care service funds (Medicaid).

### *Personal Care Services:*

Personal Care Service revenues primarily consist of Medicaid funds which are billed to Electronic Data Services (EDS), a Medicaid contractor, by the Division of Services for the Blind.



### *Independent Living Services:*

Federal funds make up 75% of revenues averaging \$3.4 million each year. Other revenues consist of 14% State appropriations, 9% County funds, and 2% transfers.

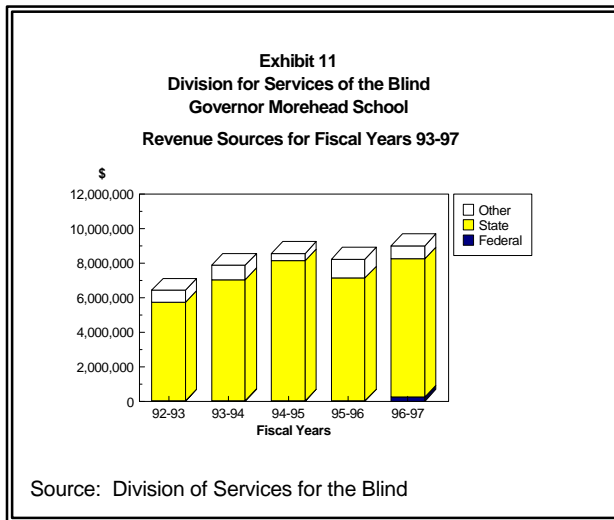
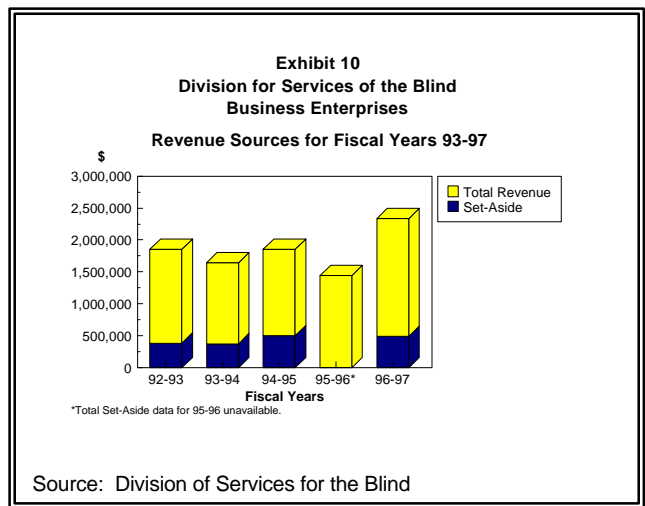
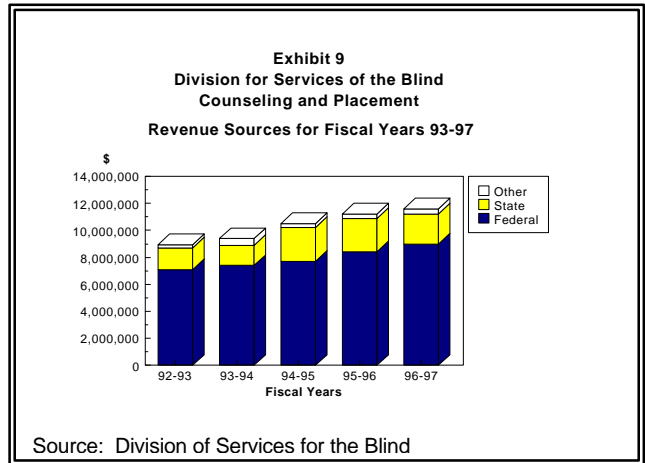
## BACKGROUND INFORMATION

### *Counseling and Placement (Vocational Rehabilitation):*

Funding sources include 78% Federal funds, 19% State appropriations, and 3% miscellaneous revenues. Federal funds average \$8 million each year.

### *Business Enterprises:*

Funding sources consist primarily of Federal funds and the set-aside revenues within the General Fund and Special Revenue fund. Since fiscal year 1993, federal funds have made up approximately 62.25% of total revenues, averaging \$920,399 per year. Over the same period, the set-aside funds comprised approximately 29.77%, averaging \$437,275. The set-aside revenues are profits from the operations of business enterprises.



### *Governor Morehead School:*

Funding sources are primarily State appropriations, 89%. Other revenues consists of rental of office space.

## FINDINGS AND RECOMMENDATIONS

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## FINDINGS AND RECOMMENDATIONS

This section of the report contains findings and recommendations for improvements. We have organized them into organizational issues which affect all programs, or specific programs as identified, and operational issues for specific programs.

### ORGANIZATIONAL ISSUES

#### THE COMMISSION FOR THE BLIND DOES NOT HAVE OPERATIONAL POLICES AND PROCEDURES.

As prescribed in GS §143B-158, the Commission for the Blind consists of eleven members, appointed by the Governor, who serve staggered six year terms. The Governor designates the Chairman who serves at the pleasure of the Governor. By statute, the Commission meets at least once in each quarter and may hold special meetings at any time and place within the State at the call of the Chairman or upon the written request of at least five members. The functions of the Commission include adopting rules governing the conduct of the State's rehabilitative programs for the blind.

During the field work, we found that not all commission members attend meetings on a regular basis. Over the last seven fiscal years, Commission members averaged attending 77% of the meetings. While most Commissioners attended regularly, one member attended only 21% of the meetings during the period examined. (See Table 3). We were unable, however, to find written policies and procedures for the Commission outlining the expectation for attendance. In our opinion, for the Commission to be effective, members need to attend meetings.

Failure to attend meetings prevents the Commissioners from doing the job for which they were appointed. The statutes give the Governor the power to remove any member of the Commission from office.

<b>TABLE 3 COMMISSION FOR THE BLIND ATTENDANCE AT COMMISSION MEETINGS FOR THE PERIOD FY90 THROUGH FY97</b>				
<b>MEMBER</b>	<b># OF MEETINGS</b>	<b># NOT ATTENDED</b>	<b>MEETINGS ATTENDED</b>	<b>PERCENT ATTENDANCE</b>
A	28	0	28	100%
B	13	4	9	69%
C	28	7	21	75%
D	13	1	12	92%
E	21	4	17	81%
F	8	2	6	75%
G	28	3	25	89%
H	28	9	19	68%
I	13	0	13	100%
J	28	22	6	21%
K	16	5	11	69%
L	19	1	18	95%
M	15	5	10	67%
N	15	0	15	100%
O	15	1	14	93%
P	6	4	2	33%
Q	6	0	6	100%

Source: Division of Services for the Blind

## **FINDINGS AND RECOMMENDATIONS**

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### **RECOMMENDATION**

**The Commission should establish written policies and procedures for its operations. One policy should specifically address meeting attendance by members and spell out the remedies for excessive absences from meetings. Names of members with excessive absences, as defined in the policy, should be reported by the Chairman and Secretary to the Governor for action. Further, a consideration and item for discussion with any prospective Commission member should be the commitment to regular attendance of meetings.**

### **ORGANIZATIONAL LINES OF AUTHORITY IN SOME AREAS ARE NOT CLEARLY DEFINED.**

DSB recently combined the area and district offices in one area in an effort to streamline the reporting structure and save money on office rent. However, this situation has led to some confusion over the lines of authority and responsibilities. The area social services supervisor is of the opinion that she is reporting to the area rehabilitation supervisor, even though they are the same pay grade and have a horizontal reporting relationship per the agency's organizational chart. Staff who formerly reported to the area social services supervisor are uncertain to whom they should report since the area rehabilitation supervisor has been designated "office manager."

Historically, the area offices have been supervised by an area supervisor and district offices have been supervised by counselors-in-charge. Since the two offices were combined, the counselors in the district offices are uncertain as to whom they report. Some counselors stated they report to the area supervisor even though the organizational chart shows they should report to the counselor-in-charge. We discovered that the area supervisor has been conducting the performance evaluations for these counselors. This leads us to question what the real reporting relationships are and whether the job descriptions for the area supervisors and the counselors-in-charge need to be reviewed.

### **RECOMMENDATION**

**DSB should review the lines of reporting authority within each region. Appropriate lines of authority should be determined and clearly communicated to management and staff. Performance evaluations should be conducted by each employee's immediate supervisor. Where district offices have been combined with area offices, the need for counselor-in-charge positions should be evaluated. All job descriptions and pay grades should be re-evaluated to properly reflect actual duties and responsibilities.**

## **FINDINGS AND RECOMMENDATIONS**

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### **WORKLOADS AMONG HEADQUARTERS STAFF AND FIELD PERSONNEL ARE NOT EQUITABLE.**

As part of the audit, we reviewed job descriptions and other data supplied by DSB relating to the various functions within the division. We compared this data with the information gained through interviews with personnel at all levels of DSB. We noted that the job descriptions for a number of different positions (see discussion above) did not contain the duties the personnel in the positions said they perform. This appears to be the result of reorganization, shifting of personnel from one area to another, and combining of positions. Specific issues identified included:

- lack of workload indicators for the different functions within DSB;
- several positions were moved from DSB to the Department level without identification of the effect these moves had on DSB operations; and
- the number of staff and the organization is different from region to region, does not appear to take into account the number of clients currently served, nor differences in staffing needs based on recent reorganizations.

### **RECOMMENDATION**

**DSB should initiate a workload study and examine all job descriptions for accuracy of the duties currently performed by staff. To this end, DSB should ask for assistance from the Office of State Personnel.**

### **BUSINESS ENTERPRISES COUNSELORS DO NOT REPORT DIRECTLY TO THE CHIEF OF BUSINESS ENTERPRISES.**

The purpose of the Business Enterprises (BE) program is to assist DSB clients in the establishment and operation of food service facilities. The BE program is the responsibility of the Chief of Business Enterprises, located in Raleigh. Seven business enterprises counselors, assigned to district offices across the State, are employed to implement the program at the local level. The majority of the counselors' duties revolve around the monitoring of food service facilities in their territories. Currently, these counselors report directly to the Area or District Rehabilitation Supervisor rather than the Chief of Business Enterprises. Thus, the Chief of Business Enterprises must communicate through the Area or District Rehabilitation Supervisor to coordinate work to be performed by the counselors. While an informal reporting relationship already exists between the counselors and the Chief, the official reporting structure results in the restriction of the Chief's ability to administer the BE program in an efficient and effective manner.

We believe this reporting structure is the result of funding decisions and does not reflect functional reporting needs. Based on a projection provided by DSB for a departmental internal audit, there would be a \$61,000 shortage in funds available to



## FINDINGS AND RECOMMENDATIONS

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support the district management positions without the funding from the BE program.<sup>3</sup> Because the role of the counselors is essential to the operation of the Business Enterprises program, we believe that a direct technical reporting relationship should exist between the BE counselors and the Chief of the program. However, if the day-to-day administrative reporting lines are through the Area or District Rehabilitation supervisors, we are of the opinion that the current funding structure could be justified.

### RECOMMENDATION

**The Business Enterprises counselors should be placed under the direct technical supervision of the Chief of the Business Enterprises Program. This move will improve communication between the program head and the staff charged with local implementation of the program.**

### **THE NURSES IN THE MEDICAL EYE CARE SERVICES SECTION ARE NOT BEING USED EFFECTIVELY.**

Currently, there are eleven eye care nurses located in the district offices. When the program first started, their duties included eye exams, screening for glaucoma, delivering optical aids, and providing glasses to clients in areas of the State where these services were not available. Table 4 contains a breakdown of the number of clients by type of service offered through the medical eye care program. As the program has developed and medical eye care services have become more available at the local level, the nurses' primary function has changed to performing vision screening for children and adults. Vision screening consists of having the client read from the standard eye chart and noting at what level the person is able to read; i.e., 20-20, 20-30, etc. During the audit, we learned that in many area and district offices, the vision screenings are actually given by secretarial staff. We could find little support for the need of the nurse positions as originally established since the same services under this program are offered by staff from county health

<b>TABLE 4 NUMBER OF MEDICAL EYE CARE CLIENTS BY SERVICE FYE 6/30/97</b>	
Eye Exams	7,035
Eye Glasses	3,218
Surgery/Treatments	4,243
Clinics	248
Low Vision Evaluations	3,333
Children Screening	11,376
Glaucoma Screenings	13,435
<b>TOTAL</b>	<b>42,888</b>
Source: Division of Services for the Blind	

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<sup>3</sup> Funding for the area management positions now comes from three sources: Vocational Rehabilitation Basic Support Grant, the BE Program, and state appropriations. If supervision of the BE counselors was reassigned from the district office to the BE Program, supervision costs might have to be reallocated between the two remaining funding sources (Social Services Block Grant and Vocational Rehabilitation Basic Support Grant).

## **FINDINGS AND RECOMMENDATIONS**

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departments, Smart Start, Head Start, the Society for the Prevention of Blindness and interested Lions clubs.

### **RECOMMENDATION**

**DSB should either abolish the medical eye care nurse positions or redesign the positions to be trainers of field staff performing the eye exams. Further, DSB should actively work with local entities to make sure all eye care screenings are being done on a timely basis. DSB should also work with private organizations in the various counties to place the individuals in the medical eye care program who are receiving personal care services through the program.**

### **THE INDEPENDENT LIVING REHABILITATION COUNSELORS ARE PERFORMING DUTIES BEYOND THEIR JOB DESCRIPTIONS.**

DSB currently has ten independent living counselors located across the state. The major responsibility of these counselors is to provide services to blind and visually impaired individuals and their families, community-based independent living skills training, one-on-one in-home instruction, and information/referral services. Funding for these counselors is provided by 90% federal funds and 10% state funds. During the audit we learned that many of these counselors are performing some regular social worker duties in addition to the specialized independent living counselor functions for which they were hired. Additionally, because of limited funding, these counselors do not have adequate funds to purchase the specialized equipment necessary to assist clients to attain an independent living status. With improved technology for the blind, program staff could be more effective with additional funds for the purchase of specialized equipment.

### **RECOMMENDATION**

**DSB should re-evaluate the current role of the independent living counselors and clarify their role as it relates to the duties of a social worker. Additionally, DSB should determine the level of funding needed to allow the purchase of specialized equipment needed to make the program more effective.**

## FINDINGS AND RECOMMENDATIONS

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### **OPERATIONAL ISSUES**

#### *Global Issues:*

#### **THE STATUTORY AUTHORITY AND RESPONSIBILITIES FOR DSB ARE VAGUE AND OPEN TO INTERPRETATION.**

The various programs offered by DSB are authorized under Chapters 111 and 143B of the General Statutes of the State of North Carolina. The responsibilities as outlined in these statutes are based in part on federal regulations adopted to implement in the Barden-Rehabilitation Act and the Randolph-Sheppard Bill. During the audit, we learned that the legislation, both at the federal and state level, is written in very vague terms and is open to interpretation. This situation has been recognized by the North Carolina Attorney General's Office in a memo to DSB which indicated that the rules and regulations governing DSB are too vague to offer enough support in court. Therefore, DSB is left in the position of having to approve requests for services which do not meet its stated policies if the policies are challenged, or are likely to be challenged, by a client. For example:

- Equipment is being purchased for a client who does not meet the criteria for receiving adaptive equipment because the client has filed a number of appeals on DSB decisions not to provide equipment or services. This client is also receiving more than twice the maximum amount of hours allowed for reader services.
- A client has twice been paid the actual cost for lodging at a rate more than the state rate. The first overpayment was because of an error by the rehabilitation counselor. The second overpayment was made because the client "has been given to expect reimbursement of actual costs."

#### **RECOMMENDATION**

**DSB and the Department should undertake an immediate review of all statutes, rules, and regulations relating to all programs offering services to the blind. This review should result in recommendations for needed changes to be presented to the General Assembly for action. The General Assembly should review the recommendations in detail for the purpose of further clarifying the intent of the programs for the blind and further strengthening and better defining the responsibilities of DSB, within the federal framework.**

## **FINDINGS AND RECOMMENDATIONS**

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### **THE DSB CENTRALIZED DATABASE DOES NOT CONTAIN STATISTICS FOR ALL PROGRAMS.**

DSB has a computer system which tracks client data for the Rehabilitation Services, the Independent Living Services, and the Independent Living Rehabilitation programs. Other DSB programs not tracked by this system are the Special Assistance for the Blind, Personal Care Services, Business Enterprises, and the Governor Morehead School. Data for these programs are tracked by the individual program manager. Since programs count their respective number of clients served, a problem of double counting occurs when a client receives services from more than one program. Therefore, the information provided to the General Assembly, the Commission for the Blind, and any other agency requesting information on total number of clients served by DSB is overstated and does not represent an unduplicated number of individual clients served. The numbers reported by program, however, appear to be accurate. We were unable to determine the exact number of individual clients served by DSB because of this method of record-keeping.

### **RECOMMENDATION**

**DSB should modify its database system to include records for all DSB programs. The system should accommodate both program requirements and provide an accurate count of individuals receiving one or more program services. Additionally, when the agency is reporting data to the General Assembly, the public or other agencies, an unduplicated count should be used for individuals served, while continuing to provide the number of clients receiving services through each program. DSB should identify costs associated with this database change and request funds from the General Assembly, if needed, for this purpose.**

### **SOME POLICIES AND PROCEDURES ARE NOT CURRENT AND ARE NOT BEING CONSISTENTLY FOLLOWED.**

During the audit, we learned that DSB policies and procedures as contained in the *Rehabilitation Manual* were not being followed. Additionally, the *Performance Standards Manual* used by the Business Enterprises Program was outdated and management had instructed staff to ignore many portions of the manual. Some of the policies and procedures in place are at least 10 years old. For this reason, many are not accurate as to the current practice and, therefore, are ignored by the staff. For instance:

- Adaptive equipment is being purchased for individuals who are not in training or who do not have a job in which they need the equipment. Per policy, adaptive equipment should only be purchased for individuals

## FINDINGS AND RECOMMENDATIONS

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who are in training or are employed and require the adaptive equipment to perform their job function.

- Reader services are being provided for up to 100 hours per month when policy states that the maximum allowed is 40 hours per month.
- Lodging expenses are being reimbursed at cost instead of the state rate as provided by the current policies.

### RECOMMENDATION

**DSB should immediately update its policies and procedures. All policies and procedures should be clearly defined. A system for periodic update and distribution of the policies and procedures should be established. Changes should be communicated to management and staff in a timely manner. All decisions concerning client authorizations for any facet of the program should be based on DSB policy and should be implemented following DSB procedures. Any deviations should have the appropriate DSB/Department approval and have adequate supporting documentation.**

### **DSB DOES NOT HAVE A COMPREHENSIVE TRAINING PROGRAM FOR STAFF.**

As we conducted interviews with staff, a need consistently identified was for a comprehensive, on-going training program. We heard this from administrative staff, field staff in all program areas, as well as teachers and social service personnel. Currently, DSB does offer staff the opportunity of taking various courses and workshops. However, these courses and workshops, while relevant, are not presented in a comprehensive training program. This makes the courses less effective than they could be. The absence of a comprehensive training program for each specialty area does not give DSB any method of assuring that its staff have knowledge of current and adequate methods of service delivery. We learned during the audit that DSB does not have sufficient training funds to develop and implement a comprehensive training program.

### RECOMMENDATION

**DSB should establish a task force to determine the generic and specialized courses necessary to develop a comprehensive training program for staff. A plan of study should be developed for each specialized area. Each staff member's experience and existing competencies should be determined and a training plan developed for each person depending on his/her needs. This program should be on-going and updated as methods change.**

## **FINDINGS AND RECOMMENDATIONS**

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**In our opinion, each staff member should receive continuing education each year, combining generic courses with courses in the staff member's area of specialty. Further, DSB should determine the amount of funding necessary to develop and implement the training program. These funds should be requested from the General Assembly.**

### *Financial Issues:*

#### **BUDGET INFORMATION IS NOT DISSEMINATED TO PROGRAM MANAGERS ON A TIMELY BASIS.**

In 1996 DSB converted to the North Carolina Accounting System (NCAS). Since that time, program managers report that budget information has not been readily available to them since DSB staff were in the process of defining the various reports available from NCAS. Administration instructed the managers to use FY95-96 expenditures as their guide for current year program expenditures until all reports could be defined and equipment could be installed. This step was taken because DSB's conversion to NCAS has taken time and the data contained in NCAS for the various programs might not be accurate or reliable since it was still being defined. DSB is in the process of installing all equipment necessary to fully convert to NCAS. However, at the time of the audit, computers were not available to all program managers, nor had training been given to all managers.

#### **RECOMMENDATION**

**DSB should continue its efforts to complete the conversion to NCAS and take steps to assure that the data contained therein is accurate and reliable. As soon as possible, computer equipment should be made available to all program managers, and they should be provided with appropriate training. Once the system is fully operational and reliable, the various program managers should be granted authority and held responsible for managing their respective programs.**

#### **DSB HAS NOT DESIGNED NCAS REPORTS SHOWING FINANCIAL DATA BY VENDING FACILITIES.**

The Business Enterprises program is currently able to accumulate revenues and expenditures by vendors only on an individual vendor basis by calendar year. This allows DSB to provide the vendors with the data necessary to file their personal income tax forms. During the audit, we learned that DSB has not designed NCAS reports to provide BE program management with data on revenues and expenses for a given vending location. The only way management can obtain this information is if the same vendor has been at the same location for the entire calendar year.

## FINDINGS AND RECOMMENDATIONS

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Management's inability to obtain revenue and expense data by location inhibits its ability to monitor profitability of individual sites. This further complicates management recommendations on sites which might be divided to increase the opportunities for client participation in the program. (See discussion on page 36.)

### RECOMMENDATION

**DSB should request assistance from Department accounting staff in making the necessary modifications to capture financial data by vending location. Once this data is available, it should be used to more closely monitor the earnings potential of each site and manage the BE program to offer the maximum number of opportunities for client participation.**

### THE GOVERNOR MOREHEAD SCHOOL IS USING SUBSTITUTE FUNDS IN A QUESTIONABLE MANNER.

The Governor Morehead School (GMS) staffing budget provides for substitutes for teachers and educational development aides when they are absent from work. At the time of the audit, GMS had a vacant permanent teacher position and a vacant permanent educational development aide position. The substitute teacher filling the vacant permanent position was being paid from substitute teacher funds. The vacant aide position was filled by a substitute being paid from substitute aide funds. This situation reduces the number of potential substitutes that can be hired on a day-to-day basis based on need. Additionally, it creates "lapsed salary" funds which DSB has transferred at a later date to cover contractual services which has traditionally been underfunded. These actions shortchange the students of the Governor Morehead School and demonstrate management's need to develop a budget which more accurately portrays its operational needs. Substitutes filling vacant permanent positions should be paid from the budgeted salaries for those positions, not substitute funds.

### RECOMMENDATION

**DSB management should closely examine the practice of using its full-time and substitute funds in this manner and consider the consequences of this action. The number of substitutes on a given day should be determined by the need and the availability of substitute funds. Further, DSB should develop a continuation budget which more accurately reflects its actual operational needs. If more funds are needed in the contractual services line item, DSB should document this need to the Department and work with Department accounting to find ways to adequately fund the need.**

## **FINDINGS AND RECOMMENDATIONS**

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### **FOLLOW-UP OF PRIOR FINANCIAL RELATED AUDIT**

As a part of our review, we followed-up on a financial related audit on DSB performed by the Office of the State Auditor for the period of July 1, 1996, through January 31, 1997. That audit was limited to assessing certain DSB internal controls for selected financial activities not included in the audit work of the State's *Comprehensive Annual Financial Report (CAFR)* or *Single Audit Report*. During this audit, the financial team found: 1) records were not maintained to document eye examinations; and 2) expenditures needed to be monitored for the Supported Employment Extended Service Program.

DSB has sent out memorandums to its staff to reinforce GS §111-8 and Section T10:19H.206 of the North Carolina Administrative Code which requires an eye examination to be completed by physicians before medical or surgical treatment can be given to blind or partially blind clients. For the Supported Employment Extended Service Program, procedures have been implemented that require the programs to submit invoices to program managers by the seventh day of the month following the month in which services were provided. The invoices will also be submitted to DSB accounting by the twelfth day of the month for review. Additionally, DSB now requires the budget officer to review expenditure coding.

### **RECOMMENDATION**

**DSB should modify written operational procedures to reinforce the requirement that eye exam reports be a part of the files in which treatment/surgery is provided or required for blind or partially blind clients. In addition, DSB should continue its efforts in monitoring the propriety and timeliness of expenditures.**

*Employment/Business Enterprises Issues:*

### **DSB HAS PROVIDED QUESTIONABLE EMPLOYMENT SERVICES TO A CLIENT.**

One of the responsibilities of DSB is to assist clients in obtaining employment. DSB uses a variety of methods to fulfill this responsibility including paying for clients to attend conferences and go to job interviews, both in-state and out-of-state. During the audit, we found documentation showing that DSB had paid for a number of conference trips for the same individual. These conferences, held in Boston, San Diego, San Francisco, and New York, were for the purpose of "networking" in hopes of landing a job interview. After the first conference the client indicated that all the potential positions had been either filled, were on hold, or no longer existed. Additionally, this same individual was sent to several other cities for job interviews, including a trip to Greece. According to DSB staff, the client turned down the job in Greece when it was offered, but stayed in Greece for a



## **FINDINGS AND RECOMMENDATIONS**

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week at the State's expense. Yet, these trips continued to be approved even though the client's Individual Written Rehabilitation Plan stated that trips would only be approved when there was documentation showing that a vacancy existed for which the client qualified and that a formal interview had been scheduled.

DSB has also paid for a guide to accompany this client on trips. The guide was necessary because the client refused to take the mobility and orientation training offered by DSB which would enable him to travel independently. This refusal was despite the fact that the client agreed to participate in the training in an earlier settlement agreement with DSB. While it is ultimately the client's choice whether or not to take mobility and orientation training, the State should not bear the costs associated with his non-participation since he had previously agreed to take the training. Providing guide services has doubled the cost of the trips taken. Overall, the State has paid \$47,585 for questionable services to this one client, including \$23,205 for the trips alone. Because of the condition of the records at DSB, we were unable to determine whether this was an isolated instance or a standard practice.

### **RECOMMENDATION**

**DSB should examine its regulations and procedures regarding approval of and reimbursement for employment related travel for clients. The guidelines for client travel as established by DSB should be adhered to. Trips should only be approved when it can be documented that a vacancy exists for which the client is qualified and a formal interview has been scheduled for the client. The duration of the trips should be limited to a reasonable amount of time necessary to attend the interview, in our opinion no more than three days. Guide and reader services should only be provided in unusual circumstances. When a client has refused to take mobility and orientation training, DSB should consider making the client responsible for providing guide and/or reader services.**

### **THE POLICY ALLOWING DSB TO PURCHASE VEHICLES FOR CLIENTS IS OPEN ENDED.**

Current policy allows DSB to make the down payment and pay the first six months of insurance on vehicles for clients if it is determined that the client needs a vehicle to perform his/her job. The policy does not address such crucial issues as:

- who will negotiate the price to be paid for the vehicle;
- the maximum allowable amount of down payment;
- the amount of time a client must have been in the program to qualify;

## FINDINGS AND RECOMMENDATIONS

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- the amount of time a client must remain in the program after receiving the vehicle;
- whether, and when, the client must repay the down payment and insurance paid by the program; and
- what remedies are available to DSB if the client does not meet his/her obligations.

While our fieldwork did not reveal any instances of this policy being abused, the potential for abuse does exist.

### RECOMMENDATION

**DSB should rewrite its vehicle purchase policy to lessen the potential for abuse. The policy should allow DSB to have input in negotiating the purchase price of the vehicle. The policy should also establish a dollar limit or a maximum percentage of the purchase price that is allowed for the down payment. Time limits for participation by the client before and after the purchase of the vehicle need to be established, as does a set time for the client to repay the program for the down payment and insurance. Consequences of not meeting the requirements set forth in the policy should be established and clearly communicated to clients accessing this service.**

### CURRENT SET-ASIDE STRUCTURE MAY NOT BE ACCOMPLISHING THE OBJECTIVES INTENDED BY THE LEGISLATURE.

The Randolph-Sheppard Act of 1936 provides authority for DSB to assess a fee against the net proceeds<sup>4</sup> of each vending facility operated under the Business Enterprises Program. Per federal regulations<sup>5</sup>, these funds may be set-aside for the purposes of:

- maintenance and replacement of equipment;
- purchase of new equipment;
- management services;
- assuring a fair minimum return to vendors; or

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<sup>4</sup> The code of federal regulations (34 CFR Part 395.1 (k)) defines net proceeds (income) as follows: “*Net Proceeds* means the amount remaining from the sale of articles or services of vending facilities, and any vending machine or other income accruing to blind vendors after deducting the cost of such sale and other expenses (excluding set-aside charges required to be paid by such blind vendors).”

<sup>5</sup> Determination of the set-aside fee must be in compliance with the federal requirements as described in 34 CFR Part 395 as administered by the US Department of Education, Office of Special Education and Rehabilitation Services.

## FINDINGS AND RECOMMENDATIONS

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- establishment and maintenance of retirement or pension funds, health insurance contributions, and provision for paid sick leave and vacation time.

The federal regulations further allow the state agency to determine the amount to be charged for each of the above purposes. Prior to 1992, DSB could set-aside no more than twenty percent (20%) of the funds from the net proceeds of each vending facility. However, as a result of a legislative study of the highway vending program conducted in 1992, GS §111-50 revised the method of calculating set-asides. It appears the anticipated effect of the legislative change was to shift the burden of financial support of the set-aside fund to the higher income producing facilities. Now profits are based upon operator net income and determined as follows:

- seventeen percent (17%) set-aside on operator net income up to two and one-half times the average operator income for the previous State fiscal year;
- fifty percent (50%) set-aside on operator net income between two and one-half and three and one-half times the average operator income for the previous State fiscal year; or
- sixty-five percent (65%) on all operator net income over three and one-half times the average operator income for the previous State fiscal year.

DSB adopted these rates for non-highway vendors as well as for highway vendors. (See page 36). With this system, vendors pay a set-aside fee beginning with the first dollar of profit. However, based upon the guaranteed minimum return<sup>6</sup> of \$700 per month, some vendors receive a refund of the set-aside dollars in the same month they pay set-aside dollars.

We believe the current set-aside structure is not accomplishing the objective intended by the legislature. As indicated above, the set-aside rate is 17% for all operator net income up to two and one-half times the average net income for the preceding State fiscal year. However, the rates increase dramatically for net income levels exceeding this amount. Based upon the average operator net income for FY1995-96, an operator would have to earn in excess of \$89,898 net income from operations to be charged a set-aside rate at the 50% level. Only six of 94<sup>7</sup> operators were charged 50% for calendar year 1996 and no operator has ever reached the maximum 65% rate. Furthermore, the set-aside rates charged to each vendor do not reflect the level of management services provided by DSB (see discussion below). Therefore, there is no practical graduated scale based upon the level of operator net income.

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<sup>6</sup> The guaranteed minimum return is authorized by the legislature in NCAC (.0701 (a)) and established by DSB.

<sup>7</sup> The actual number of operators varies and could not be determined from DSB records. Per DSB staff, the total number of vending facilities for calendar year 1996 was 99 with 104 operators. Some vendors may temporarily operate more than one facility.

## FINDINGS AND RECOMMENDATIONS

### RECOMMENDATION

DSB should reexamine the current rate structure. In our opinion, a graduated scale of the set-aside fees with a minimum income level should be developed in lieu of the current rate structure. Table 5 below suggests such a scale and shows the effect on 1996 data. This would have the effect of making the set-aside fees more equitable. DSB should petition the legislature to remove the rates from the statutes and for the authority to establish and manage its own set-aside rate structure.

**TABLE 5  
SCHEDULE OF SUGGESTED SET-ASIDE RATES  
BASED ON CALENDAR YEAR 1996  
NET INCOME FROM OPERATIONS BY VENDING FACILITY**

1996 Individual Stand Net Income From Operations	<i>Suggested Rates</i>					Total Sug- gested Set- Aside	Total 1996 Set- Aside	Differ- ence
	\$0- \$12,000	\$12,001- \$24,000	\$24,001- \$36,000	\$36,001- \$60,000	Over \$60,000			
	-0-	15%	25%	35%	50%			
\$111,493	\$0	\$1,800	\$3,000	\$8,400	\$25,746	\$38,945	\$26,080	\$12,865
110,179	0	1,800	3,000	8,400	25,089	38,288	25,423	12,865
104,971	0	1,800	3,000	8,400	22,485	35,684	22,820	12,865
93,404	0	1,800	3,000	8,400	16,701	29,901	17,036	12,865
90,825	0	1,800	3,000	8,400	15,412	28,611	15,747	12,865
77,621	0	1,800	3,000	8,400	8,810	22,009	13,196	8,814
74,374	0	1,800	3,000	8,400	7,187	20,386	12,644	7,742
73,213	0	1,800	3,000	8,400	6,606	19,805	12,446	7,359
71,107	0	1,800	3,000	8,400	5,553	18,752	12,088	6,664
68,428	0	1,800	3,000	8,400	4,214	17,413	11,633	5,780
66,201	0	1,800	3,000	8,400	3,100	16,299	11,254	5,045
66,100	0	1,800	3,000	8,400	3,050	16,249	11,237	5,012
61,971	0	1,800	3,000	8,400	985	14,184	10,535	3,649
59,776	0	1,800	3,000	8,321	0	13,121	10,162	2,959
58,604	0	1,800	3,000	7,911	0	12,711	9,963	2,748
54,418	0	1,800	3,000	6,446	0	11,246	9,251	1,994
53,733	0	1,800	3,000	6,206	0	11,006	9,135	1,871
52,370	0	1,800	3,000	5,729	0	10,529	8,903	1,626
50,706	0	1,800	3,000	5,147	0	9,946	8,620	1,326
49,605	0	1,800	3,000	4,761	0	9,561	8,433	1,128
45,586	0	1,800	3,000	3,355	0	8,154	7,750	405
45,410	0	1,800	3,000	3,293	0	8,093	7,720	373
42,401	0	1,800	3,000	2,240	0	7,039	7,208	(169)
41,978	0	1,800	3,000	2,092	0	6,892	7,136	(245)
41,282	0	1,800	3,000	1,848	0	6,648	7,018	(370)
39,435	0	1,800	3,000	1,202	0	6,001	6,704	(703)
37,760	0	1,800	3,000	616	0	5,415	6,419	(1,004)
37,481	0	1,800	3,000	518	0	5,318	6,372	(1,054)

TABLE 5 continued

34,179	0	1,800	2,544	0	0	4,344	5,810	(1,466)
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## FINDINGS AND RECOMMENDATIONS

34,091	0	1,800	2,522	0	0	4,322	5,795	(1,473)
33,729	0	1,800	2,432	0	0	4,232	5,734	(1,502)
31,405	0	1,800	1,851	0	0	3,651	5,339	(1,688)
30,102	0	1,800	1,525	0	0	3,325	5,117	(1,792)
29,683	0	1,800	1,421	0	0	3,220	5,046	(1,826)
29,366	0	1,800	1,341	0	0	3,141	4,992	(1,851)
29,320	0	1,800	1,330	0	0	3,130	4,984	(1,855)
27,711	0	1,800	928	0	0	2,727	4,711	(1,983)
27,287	0	1,800	821	0	0	2,621	4,639	(2,017)
27,077	0	1,800	769	0	0	2,569	4,603	(2,034)
26,731	0	1,800	682	0	0	2,482	4,544	(2,062)
26,667	0	1,800	667	0	0	2,466	4,533	(2,067)
25,940	0	1,800	485	0	0	2,285	4,410	(2,125)
25,375	0	1,800	344	0	0	2,143	4,314	(2,170)
25,229	0	1,800	307	0	0	2,107	4,289	(2,182)
25,173	0	1,800	293	0	0	2,093	4,279	(2,187)
25,003	0	1,800	250	0	0	2,050	4,250	(2,200)
23,553	0	1,733	0	0	0	1,733	4,004	(2,271)
21,419	0	1,413	0	0	0	1,413	3,641	(2,229)
20,038	0	1,206	0	0	0	1,206	3,407	(2,201)
19,858	0	1,179	0	0	0	1,179	3,376	(2,197)
19,756	0	1,163	0	0	0	1,163	3,359	(2,195)
19,611	0	1,142	0	0	0	1,142	3,334	(2,192)
19,471	0	1,121	0	0	0	1,121	3,310	(2,190)
19,470	0	1,120	0	0	0	1,120	3,310	(2,190)
18,372	0	956	0	0	0	956	3,123	(2,168)
17,015	0	752	0	0	0	752	2,893	(2,140)
15,925	0	589	0	0	0	589	2,707	(2,119)
15,430	0	514	0	0	0	514	2,623	(2,109)
15,351	0	503	0	0	0	503	2,610	(2,107)
14,609	0	391	0	0	0	391	2,484	(2,092)
14,307	0	346	0	0	0	346	2,432	(2,086)
13,686	0	253	0	0	0	253	2,327	(2,074)
13,633	0	245	0	0	0	245	2,318	(2,073)
12,830	0	124	0	0	0	124	2,181	(2,057)
12,068	0	10	0	0	0	10	2,052	(2,042)
12,060	0	9	0	0	0	9	2,050	(2,041)
11,848	0	0	0	0	0	0	2,014	(2,014)
11,816	0	0	0	0	0	0	2,009	(2,009)
11,684	0	0	0	0	0	0	1,986	(1,986)
11,510	0	0	0	0	0	0	1,957	(1,957)
11,234	0	0	0	0	0	0	1,910	(1,910)
10,781	0	0	0	0	0	0	1,833	(1,833)
10,498	0	0	0	0	0	0	1,785	(1,785)
10,411	0	0	0	0	0	0	1,770	(1,770)
9,660	0	0	0	0	0	0	1,642	(1,642)
9,083	0	0	0	0	0	0	1,544	(1,544)
8,826	0	0	0	0	0	0	1,500	(1,500)
8,367	0	0	0	0	0	0	1,422	(1,422)
8,322	0	0	0	0	0	0	1,415	(1,415)
8,174	0	0	0	0	0	0	1,390	(1,390)
7,828	0	0	0	0	0	0	1,331	(1,331)
7,772	0	0	0	0	0	0	1,321	(1,321)
7,378	0	0	0	0	0	0	1,254	(1,254)
7,362	0	0	0	0	0	0	1,251	(1,251)
6,569	0	0	0	0	0	0	1,117	(1,117)
6,114	0	0	0	0	0	0	1,039	(1,039)
6,111	0	0	0	0	0	0	1,039	(1,039)

## FINDINGS AND RECOMMENDATIONS

TABLE 5 continued

5,832	0	0	0	0	0	0	991	(991)	
5,810	0	0	0	0	0	0	988	(988)	
5,065	0	0	0	0	0	0	861	(861)	
4,280	0	0	0	0	0	0	728	(728)	
4,224	0	0	0	0	0	0	718	(718)	
3,985	0	0	0	0	0	0	677	(677)	
3,929	0	0	0	0	0	0	668	(668)	
3,717	0	0	0	0	0	0	632	(632)	
3,657	0	0	0	0	0	0	622	(622)	
3,537	0	0	0	0	0	0	601	(601)	
3,424	0	0	0	0	0	0	582	(582)	
2,778	0	0	0	0	0	0	472	(472)	
2,497	0	0	0	0	0	0	425	(425)	
2,449	0	0	0	0	0	0	416	(416)	
2,257	0	0	0	0	0	0	384	(384)	
2,162	0	0	0	0	0	0	368	(368)	
2,148	0	0	0	0	0	0	365	(365)	
2,122	0	0	0	0	0	0	361	(361)	
1,951	0	0	0	0	0	0	332	(332)	
1,860	0	0	0	0	0	0	316	(316)	
1,655	0	0	0	0	0	0	281	(281)	
1,434	0	0	0	0	0	0	244	(244)	
1,381	0	0	0	0	0	0	235	(235)	
1,360	0	0	0	0	0	0	231	(231)	
1,357	0	0	0	0	0	0	231	(231)	
1,237	0	0	0	0	0	0	210	(210)	
1,199	0	0	0	0	0	0	204	(204)	
1,115	0	0	0	0	0	0	190	(190)	
1,090	0	0	0	0	0	0	185	(185)	
1,053	0	0	0	0	0	0	179	(179)	
967	0	0	0	0	0	0	164	(164)	
807	0	0	0	0	0	0	137	(137)	
781	0	0	0	0	0	0	133	(133)	
779	0	0	0	0	0	0	132	(132)	
684	0	0	0	0	0	0	116	(116)	
627	0	0	0	0	0	0	107	(107)	
552	0	0	0	0	0	0	94	(94)	
552	0	0	0	0	0	0	94	(94)	
528	0	0	0	0	0	0	90	(90)	
486	0	0	0	0	0	0	83	(83)	
455	0	0	0	0	0	0	77	(77)	
433	0	0	0	0	0	0	74	(74)	
245	0	0	0	0	0	0	42	(42)	
175	0	0	0	0	0	0	30	(30)	
<b>Totals</b>	<b>\$2,912,945</b>	<b>\$0</b>	<b>\$97,560</b>	<b>\$104,505</b>	<b>\$168,880</b>	<b>\$144,938</b>	<b>\$515,884</b>	<b>\$515,458</b>	<b>\$426</b>

Source: **Data**--Division of Services for the Blind; **Schedule**--Computed by the Office of the State Auditor

### DSB DOES NOT AUDIT VENDOR RECORDS FOR ACCURACY.

DSB currently provides four levels of management services, funded by set-aside and federal monies, depending upon the specific needs of each vendor.

## FINDINGS AND RECOMMENDATIONS

1. The operator may send all invoices, deposit slips, repair bills, and other documents to DSB including overcash<sup>8</sup> according to a schedule established by the Accounting Office; all payroll functions are performed by DSB.
2. The operator may retain sales and deposit documentation and send a summation of purchases for resale and all expenses paid out of the facility to DSB monthly along with overcash; all payroll functions are performed by DSB.
3. The operator may perform all functions in item (2) and perform his own payroll functions.
4. The operator may perform all functions of items (2) and (3) calculate his own profit and loss statement and send only the set-aside due DSB.

Each vendor operation is reviewed quarterly to ensure that projected sales and profit margin criteria are achieved. However, there is no control over the number of family members who may work in the vending operation or the amount of salaries paid to them. It is conceivable that the operator could use high salaries to a family member to keep reportable profits at a low level yet maintain the required profit margin percentages. The BE counselors performing the quarterly reviews are not required to complete a standard financial review program or to specifically check for family member employees. We learned during the audit that each counselor conducts these reviews differently. Therefore, the Chief of the BE program receives inconsistent and incomparable information on vendor operations. Operators who choose option 4 above receive no accounting support from DSB. However, they do receive record keeping reviews twice a year to determine accuracy of records and appropriateness of set-aside remittance.

### RECOMMENDATION

**DSB should develop and implement a standard financial review program for Business Enterprises counselors to use in the review of a vendor's financial operations. Further, the costs associated with DSB-provided management services should be analyzed and billed separately.**

### CURRENT PROCEDURES RESTRICT THE NUMBER OF HIGHWAY VENDING FACILITY OPERATORS.

One of the opportunities offered to clients by the Business Enterprises Program is the opportunity to operate vending stands located at rest areas along North Carolina's highways. As of December 31, 1996, a total of 25 highway vending facilities were in operation. (Exhibit 12, page 37) The average net income from operations for the 25 sites was \$55,428,

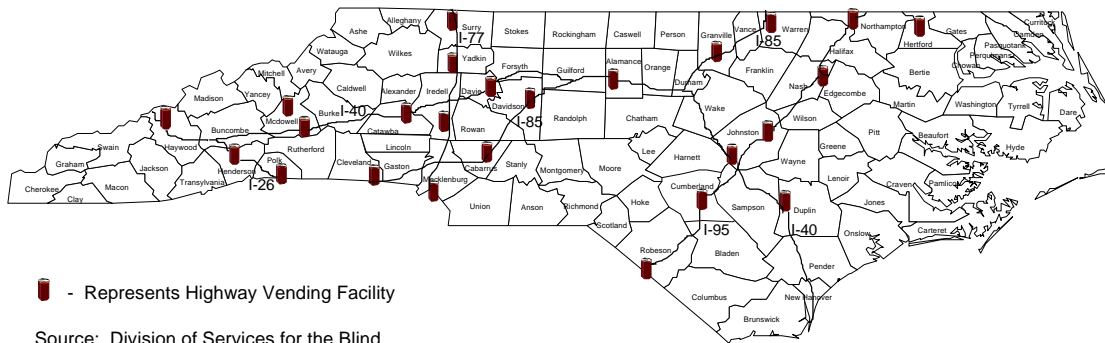
TABLE 6 NET INCOME FROM OPERATIONS FOR HIGHWAY VENDING FACILITIES FOR CALENDAR YEAR 1996			
SITE	NET INCOME	SITE	NET INCOME
1	\$111,493	14	\$ 52,370
2	110,179	15	50,706
3	104,971	16	49,605
4	90,825	17	42,401
5	77,621	18	39,435
6	74,374	19	30,142
7	73,213	20	29,366
8	71,107	21	27,077
9	68,428	22	25,173
10	66,201	23	8,456
11	60,100	24	8,322
12	59,167	25	552
13	54,418	<b>Average \$ 55,428</b>	
Source: Division of Services for the Blind			

<sup>8</sup> "overcash" is defined by DSB as the daily receipts in excess of change fund

## FINDINGS AND RECOMMENDATIONS

with three sites generating net income from operations in excess of \$100,000. (Table 6) Current procedures allow DSB to award highway vending sites on both sides of a divided highway to a single operator. We learned during the audit that DSB had not performed any analysis regarding the income potential of these stands prior to entering into contracts with these vendors. Therefore, a situation was created whereby a single operator could earn high levels of income from locations which could probably support two separate vendors. (See discussion below.) At the time of the audit, there were approximately 20 licensed clients on a waiting list for vendor stands. Since one of the stated goals of the BE program is to offer business opportunities to as many clients as possible, we believe DSB is not taking the appropriate steps to achieve that goal.

### EXHIBIT 12 DIVISION OF SERVICES FOR THE BLIND LOCATIONS OF HIGHWAY VENDING FACILITIES AS OF OCTOBER 1, 1997



### RECOMMENDATION

**DSB should review its goals relative to the Business Enterprises Program. In our opinion, the highway vending locations should be divided among as many vendors as possible. Locations which are high income producers should be divided into two separate locations operated by two different clients. In order to accomplish this, DSB needs to review the income produced at the different locations over a period of time and then determine what level of net income is reasonable for an individual operator.**



## **FINDINGS AND RECOMMENDATIONS**

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### **THE BUSINESS ENTERPRISES CONTRACTUAL AGREEMENTS ARE MISLEADING.**

DSB requires each operator of a vending facility to enter into a contractual agreement with DSB. The agreement indicates the period of the contract is two years. However, the agreement allows the operator to continue operations indefinitely unless he violates performance standards relating to profit margin or exhibits "inappropriate behavior." DSB records show that only eight of 131 operators were terminated during the two-year period ending June 30, 1997, due to failure to meet performance standards or for inappropriate behavior. Therefore, operators have come to feel that they have a lifetime right (or franchise) to operate their facilities. DSB staff indicated in interviews that it is their opinion that the BE program was designed to give eligible clients employment for as long as they wanted it. Our review of the federal and state legislation regulating the program indicated that the wording was vague and open to interpretation. However, it is our opinion that the entire training program, of which BE is one component, is intended to teach clients skills which would allow them to obtain jobs in the open market to the extent possible. This interpretation was reinforced by DSB management who stated that the BE Program was designed to rehabilitate clients. Therefore, by providing "lifetime" business opportunities, DSB is not meeting one of its stated goals. Also, the language in the contract as written appears vague in some areas and does not address specific issues that may be applicable in the operation and administration of vending facilities in some buildings. For instance, for a given location, the contract might need to say the vendor cannot use an open cooking grill due to lack of proper ventilation in that building.

### **RECOMMENDATION**

**DSB should review its goals and objectives for the Business Enterprises Program and the training program as a whole. Steps should then be taken to modify existing practices and procedures to train and place as many clients as possible. This may require changes to the existing state legislation, which should be presented to the legislature for its consideration. Further, the terms of the vending contracts should be strengthened and expectations for both parties clearly defined. This should include the rights of the agency to examine vending records for reporting accuracy and adapting the contract to the specific types of vending facilities.**

### **VENDING OPERATORS ARE RECEIVING START-UP GRANTS FROM DSB FOR EXTENDED PERIODS OF TIME.**

Currently, DSB provides all vending operators with an initial complete stock inventory and a petty cash fund for each vending facility. The amount of inventory and petty cash provided depends on the magnitude of operations at each location.

## FINDINGS AND RECOMMENDATIONS

The more income a facility is capable of producing, the larger the inventory and change fund requirements. As of December 31, 1996, the initial stock inventories varied from \$331 to \$8,952. Additionally, the change funds provided to the stand operators varied from \$100 to \$1,230.

Therefore, the higher income producing stand operators get a disproportionate grant from the State. Since vendors are only required to repay these funds when and if the stand closes or the vendor leaves the program, this practice results in a long-term, interest free "loan" to the operators. As of December 31, 1996, DSB's outstanding initial stock inventory totaled \$274,853 and the petty cash balance was \$49,278. See Table 7. These are funds which could be used to further the goals and objectives of the program if they were repaid with interest in a timely manner.

<b>Table 7</b> <b>Division of Services for the Blind</b> <b>Business Enterprises Program</b> <b>Schedule of Initial Stock and Petty Cash Fund Balances As of 12/31/96</b>								
Site Number	Actual Initial Stock	Petty Cash Balance	Site Number	Actual Initial Stock	Petty Cash Balance	Site Number	Actual Initial Stock	Petty Cash Balance
1	\$ 8,951.96	\$ 1,000.00	34	\$ 2,011.35	\$ 250.00	67	\$ 3,827.05	\$ 625.00
2	2,939.59	750.00	35	2,066.02	200.00	68	1,340.11	300.00
3	1,349.87	200.00	36	5,293.78	800.00	69	1,437.77	300.00
4	2,153.26	400.00	37	1,444.51	500.00	70	2,281.87	300.00
5	3,827.25	1,200.00	38	5,305.08	500.00	71	1,516.38	300.00
6	2,403.49	750.00	39	2,282.64	500.00	72	2,939.65	400.00
7	4,416.22	475.00	40	5,172.38	500.00	73	4,078.69	500.00
8	1,424.64	1,230.00	41	2,075.92	500.00	74	4,409.45	500.00
9	5,357.07	1,000.00	42	4,947.24	750.00	75	2,347.62	400.00
10	2,147.84	500.00	43	3,425.72	400.00	76	4,183.00	500.00
11	812.53	1,000.00	44	5,099.54	500.00	77	2,202.62	500.00
12	1,976.66	150.00	45	3,831.72	800.00	78	1,108.47	300.00
13	2,378.26	750.00	46	4,068.69	300.00	79	2,946.38	900.00
14	487.36	500.00	47	5,304.97	500.00	80	1,984.14	700.00
15	1,323.30	250.00	48	1,665.12	100.00	81	3,460.13	500.00
16	1,562.06	750.00	49	1,117.36	300.00	82	5,325.46	500.00
17	977.25	500.00	50	5,081.23	750.00	83	4,316.21	497.65
18	4,260.37	750.00	51	1,142.10	150.00	84	4,119.13	1,000.00
19	1,295.48	750.00	52	3,001.82	500.00	85	1,608.64	500.00
20	1,220.85	500.00	53	2,439.41	500.00	86	2,823.62	400.00
21	8,611.93	500.00	54	3,515.75	1,000.00	87	679.73	400.00
22	1,792.10	500.00	55	5,170.52	300.00	88	2,516.28	500.00
23	3,219.46	600.00	56	0.00	350.00	89	702.15	400.00
24	330.60	0.00	57	1,696.88	200.00	90	2,809.00	400.00
25	5,728.76	200.00	58	1,967.50	1,100.00	91	2,358.51	300.00
26	1,685.51	600.00	59	3,215.88	500.00	92	3,579.84	500.00
27	806.70	200.00	60	1,721.28	200.00	93	1,395.63	150.00
28	5,248.61	1,000.00	61	4,354.42	400.00	94	3,984.49	500.00
29	1,604.61	200.00	62	1,947.36	200.00	95	853.10	500.00
30	3,513.45	750.00	63	713.80	400.00			
31	2,190.89	500.00	64	7,281.39	1,000.00			
32	5,944.27	1,000.00	65	1,922.69	500.00			
33	4,539.70	500.00	66	951.80	250.00			
						TOTALS	\$ 274,852.89	\$ 49,227.65

Source: Division of Services for the Blind

## FINDINGS AND RECOMMENDATIONS

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### RECOMMENDATION

**DSB should amend the contract to require each vendor to repay all inventory and petty cash advances, with a reasonable rate of interest. A repayment plan should be implemented within six months of the opening of a stand, with full repayment of all advances within two years (contract period). DSB should develop procedures to assist any vendor who experiences trouble meeting the repayment schedule.**

### **THE REHABILITATION TRAINING FACILITY<sup>9</sup> IS UNDER-UTILIZED.**

DSB has a training facility, located on the Governor Morehead School grounds, which has been used primarily to train clients identified for the Business Enterprises Program.<sup>10</sup> The BE program focuses only on individuals identified by the BE counselors as being capable of operating or overseeing an entire stand operation. BE training programs are planned four times a year for six week periods with a class size limited to four to five since the ideal training ratio is 1:3. (See discussion on page 36.) This means that the training facility is not being used in an optimal manner. We were unable to determine the cost to the state of non-optimal use since the school's budget does not break out the facility's costs separately. As the training facility is currently set up, it could be used to train DSB clients in other aspects of food services during the periods when it is not in use for the vendor stand training. Currently, the operation of the training facility is the responsibility of the Director of Facilities, with limited input from the Chief of the Business Enterprises Program in the development of the curriculum. Further, DSB does not actively promote the BE program. As a result, it is possible that many visually impaired individuals may not be aware of the program opportunities.

### RECOMMENDATION

**DSB should explore the possibilities of expanding the Business Enterprises Program to encompass training and placement of clients in other areas of the food services industry. A cooperative plan for the most effective use of the training facility should be developed with input from the Director of Facilities and the Chief of the BE program. Additionally, DSB should develop methods of enhancing client awareness and the food service industry awareness of the training opportunities offered by DSB.**

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<sup>9</sup> The BE Training Facility is located at the Rehabilitation Center for the Blind on the campus of the Governor Morehead School.

<sup>10</sup> DSB began piloting a new training model in Sept. 1997.

## **FINDINGS AND RECOMMENDATIONS**

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### **OTHER STATES**

One of our objectives was to compare the North Carolina Division of Services for the Blind to other states' operations. We learned that each state can have a different definition of what constitutes being "blind." Additionally, each state offers different programs and when the same programs are offered, the interpretation of regulations is different. (See discussion on page 24 of the vagueness of the regulations.) Further complicating this issue of comparability is the fact that there is no central statistical data for programs for services to the blind. Therefore, we were unable to complete this objective for the audit. We did, however, review reports on the various programs for the blind in other states which we were able to locate and did use those in considering the recommendations contained in this report.

# APPENDIX A

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**North Carolina**  
**Department of Health and Human Services**

101 Blair Drive • Post Office Box 29526 • Raleigh, North Carolina 27626-0526  
(919) 733-4534 • Courier 56-20-00

James B. Hunt Jr., Governor

H. David Bruton, M.D., Secretary

December 23, 1997

The Honorable Ralph Campbell, Jr., State Auditor  
Office of the State Auditor  
300 N. Salisbury Street  
Raleigh, NC 27611

Dear Mr. Campbell:

I am enclosing the response of the Department of Health and Human Services to the draft report of the Performance Audit entitled Department of Health and Human Services, Division of Services for the Blind.

In so doing, I want to acknowledge and express my appreciation to you for the consummate professionalism demonstrated by your staff in conducting this audit. It was clear to us that each member of the audit team made a concerted effort to understand the program and services provided by the Division of Services for the Blind. I am confident that many of the audit recommendations will lead to improved operations in the Division of Services for the Blind. I know that each recommendation evoked serious reflection by our staff on how we do business.

As a bottom line, we feel that our participation in this process has been healthy for us and will lead to further strengthening services to the blind and visually impaired citizens of North Carolina. If you have questions or need additional information, please contact Jim Edgerton at (919) 733-4534.

Sincerely,

A handwritten signature in black ink, appearing to read "H. David Bruton".

H. David Bruton, M. D.

HDB:SA  
cc: James B. Edgerton

*North Carolina: Host of the 1999 Special Olympics World Summer Games*

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### THE COMMISSION FOR THE BLIND DOES NOT HAVE OPERATIONAL POLICIES AND PROCEDURES.

DSB concurs with the recommendation that the Commission develop operational policies and procedures which, among other things, address attendance at meetings. While there has, as stated in the report, been only one instance of chronic absenteeism, this recommendation is viewed as a good proactive step. Division staff will begin immediately working with the Commission to develop and implement operational policies and procedures.

### ORGANIZATIONAL LINES OF AUTHORITY IN SOME AREAS ARE NOT CLEARLY DEFINED.

By way of explanation as to the locations of DSB field-based offices, DSB has staff located in four area offices--Charlotte, Winston-Salem, Raleigh, and Greenville. Until 1995 there were four district offices administratively connected to each of the four area offices--Asheville, Burlington, Fayetteville, and Wilmington. Because the Burlington Office was in relatively close proximity to the Winston-Salem Office, it was closed in an effort to save rent; and the staff was relocated to Winston-Salem. The Area Social Services Supervisor and the Area Rehabilitation Supervisor were, at that time, as they are now, located in the Winston-Salem Office together. The closing of the Burlington Office had no impact on the placement of either supervisor. A similar structure existed in Greenville where the Area Social Services and Area Rehabilitation Supervisor were located together and in Fayetteville and Asheville the Area Social Services Supervisor and District Rehabilitation Supervisor have been located together for many years.

By way of clarification, in all cases the Area or District Rehabilitation Supervisor has been designated as the "Office Manager." There is not additional pay associated with this designation. The main function of the "office manager" is to handle onsite issues that arise in the day-to-day operation of the office. Maintenance needs, telephone problems, supplies, emergency communications, and workplace disruptions are among the things which might be handled by the office manager. Most of the people in the area or district office are supervised by the Area or District Rehabilitation Supervisor, while the Area Social Services Supervisor supervises Social Workers for the Blind who are dispersed at local Department of Social Services Offices throughout the area. Thus, it is necessary for the Area Social Services Supervisor to be out of the office more than the Area or District Rehabilitation Supervisor. The Division believes that, while there might be some disgruntlement in one location with the designation of the office manager, the designation is consistent with Agency practice in other locations and has proven workable in other locations.

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With respect to confusion among rehabilitation staff regarding to whom they report in a given office location, due to some unique circumstances in one location involving a counselor-in-charge who developed a disabling condition which has ultimately resulted in her retirement and the fact that the Area Rehabilitation Supervisor is relatively new to the job and in need of getting to know the staff and their roles, joint supervision of a number of employees did occur with the support of Division management in Raleigh.

Upon the retirement of the employee mentioned above at the end of October, 1997, the Division did study the need for continuing the counselor-in-charge position and determined that it was appropriate to maintain the position as its elimination would have required that the remaining Area Rehabilitation Supervisor supervise approximately eighteen employees, most of which are direct service providers. That same supervisor would have had to serve as liaison with two community rehabilitation programs, one of which also has a Supported Employment Program. The supervisor would have had to work with at least one third-party cooperative school program at a time when we are pursuing agreements with other school districts. It was our determination that the quality of work in the area and most importantly the services to clients would suffer because the sole supervisor would not have time to devote to individual staff and client needs which arise. It is our belief that the reporting lines will be clearer once a new counselor-in-charge is hired and able to be onsite consistently. If, however, additional clarification is needed by the staff in the one office where this seems to be an issue, Division management can and will provide that clarification.

### WORKLOADS AMONG HEADQUARTERS STAFF AND FIELD PERSONNEL ARE NOT EQUITABLE.

The Division concurs with the recommendation that job descriptions be reviewed and updated as appropriate to ensure that the job descriptions accurately reflect the work being done by the employee in the position and that the job functions meet the needs of the client population. In fact, as positions have been vacated they have routinely been reviewed. Additionally some job classes have been reviewed. For example, all clerical support positions were reviewed approximately three years ago as part of a State Personnel review of this group; and, as a result, a number of positions within DSB did move to a higher classification. Currently the Business Enterprises Representative (BE Counselor) positions are being reviewed, a process which began many months ago and is now with State Personnel. Those position descriptions were quite old and, we believed, not reflective of the changes which have occurred within the program thus requiring changes in how the counselor operates in his day-to-day work. The Division will place emphasis on reviewing and, when needed, updating job descriptions.

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In regard to workload distribution inequities between central office and field staff, during the course of discussions with the audit team one example was cited by an auditor which seemed to illustrate this point. In that particular situation the duties of the field-based employee had evolved as other positions had been abolished as part of ongoing required cuts. After several evolutions which have affected that position, it probably is accurate to view the position as having an unwieldy workload; and the Division will review that position to determine if steps can be taken to address the matter. Additionally, the recently updated Span of Control chart will be reviewed to determine if there are other apparent inequities which can be corrected either immediately or as vacancies occur which will create a more natural opportunity for reassignments.

### BUSINESS ENTERPRISES COUNSELORS DO NOT REPORT DIRECTLY TO THE CHIEF OF BUSINESS ENTERPRISES.

This is a point which has received extensive discussion over the past several years. In fact, a number of years ago the BE Counselors did, as recommended here, report to the Chief of Business Enterprises. Not surprisingly, there are at least two schools of thought on whether that was a better or worse reporting structure than the existing one.

The audit finding is correct in stating that funding from the BE set-aside monies does help to support the cost of the Area Rehabilitation Supervisors to whom the BE Counselors report. If those supervisors were left with no significant role in managing the BE Program, it would not be appropriate to use BE set-aside money to support these positions. As there are not actually any Social Services monies in these positions as stated in the finding, it would be necessary to fund the supervisors' positions with a combination of State appropriations and Federal rehabilitation money. Thus, State funds would need to be identified to replace the BE set-aside monies. Money is, however, only one part of the consideration from the standpoint of Division management.

The auditors acknowledged that an informal working relationship does exist between the local staff and Chief of Business Enterprises. We have, over the last twelve to eighteen months, tried to strengthen that relationship realizing that the BE Chief does have the greatest amount of knowledge about the law governing the program and other technical aspects related to operation of various food service facilities. A benefit, however, of having strong local involvement on the part of the Area Rehabilitation Supervisor lies in the need for someone onsite to have the authority and responsibility for going to a given vending site when an emergency arises and representing the Division's interests. It is not practical to think that, if a problem arises in Asheville, a Raleigh-based supervisor or management level staff person can meet with those onsite at the vending location, be it our blind BE

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operator, the facility site manager, customers, salespeople, or others. While such occurrences are, fortunately, not daily events, they are not unusual either. Thus, it is important that the Area Rehabilitation Supervisor have enough knowledge of the operation of the program to be able to perform this type intervention when needed. We believe that the more removed the Area Rehabilitation Supervisor is from the program the less able he will be to provide this type assistance locally and the less responsibility he will feel to do so.

As stated before, this is not a new issue for DSB; and we will continue to look at how the reporting, supervision, and management of the BE Program can be most efficiently and effectively handled. We believe that caution should be exercised in setting up a structure where there are essentially two supervisors for the BE Counselor lest that create greater confusion about roles. If we do pursue this model to an extent greater than that now used, it will be necessary to very clearly define those tasks to be performed by the Area Rehabilitation Supervisor and those to be performed by the Chief of the BE Program.

### THE NURSES IN THE MEDICAL EYE CARE SERVICES SECTION ARE NOT BEING USED EFFECTIVELY.

In regard to the statement in the finding which indicates that secretarial staff is conducting vision screenings, Division management has not directed secretarial staff to function in this manner; and if they are doing so, steps will be taken to eliminate this practice.

With respect to the functions performed by the nurses, as other groups, both public and private become proficient in providing vision screening services, the Division plans to review, and possibly redefine the role of its nursing staff. This will allow time for the nursing staff to concentrate on providing low vision evaluations for North Carolina's growing elderly population. The nursing staff will also be available to provide in-service training for social workers for the blind, rehabilitation counselors, teachers, etc. The Division views this as a positive recommendation and one which should result in expanded services to clients and the community.

### THE INDEPENDENT LIVING REHABILITATION COUNSELORS ARE PERFORMING DUTIES BEYOND THEIR JOB DESCRIPTIONS.

The role of the Independent Living Rehabilitation counselor is one which has evolved over the past several years, and the services provided by that small group of staff benefit a large number of newly blinded adults--many of whom are over 55 years of age. The community-based group instruction provided by these staff

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receives some of the most positive feedback of any of the Division's programs. As federal or state money is available, the desire of the Division is to expand this program.

The Division is agreeable to the recommendation that roles of the Independent Living Rehabilitation Counselors and of the Social Workers for the Blind be reviewed and, where necessary, clarified to gain the most efficient use of positions in meeting the needs of DSB clients.

The point made in the audit finding regarding the limited funding available in this program thus limiting the services which can be offered to clients is significant. Funding used to enable elderly and disabled people to remain independent in their homes is, we believe, money more efficiently used than money spent in residential care. With training such as that provided by the Independent Living Rehabilitation Counselors along with other Division staff as well as some technology, many blind people can remain independent in their homes and active members of their communities.

### THE STATUTORY AUTHORITY AND RESPONSIBILITIES FOR DSB ARE VAGUE AND OPEN TO INTERPRETATION.

A comprehensive revision of the General Statutes which authorize the programs of Services provided by the Division of Services for the Blind to the blind and visually impaired citizens of North Carolina has not been undertaken since 1973. Thus, we would agree that a thorough statutory review of the kind suggested by the audit would be both appropriate and beneficial.

However, it is unlikely that such a review would result in amendments that purged all vagueness from these Statutes or rendered them immune to multiple interpretations.

Furthermore, to be worthwhile, this review should be meaningful. For the review to be meaningful, there must be time to receive input from clients and advocates as well as departmental and divisional staff.

With respect to the rules which govern the operations of the Division of Services for the Blind, a thorough review was done last in 1989 and resulted in the repeal of many rules in 1990. Additionally rules for the Business Enterprises and Vocational Rehabilitation Programs were amended in January, 1996. The next comprehensive rules review should be conducted only after the process of statutory review and amendment is complete. Otherwise, it is very likely that yet another rules review would be needed following the completion of the statutory review and amendment process. We do not believe that delaying the rules review until after the completion

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of the statutory review process would be problematic given the length of time that it currently takes to navigate the rule-making process.

### THE DSB CENTRALIZED DATABASE DOES NOT CONTAIN STATISTICS FOR ALL PROGRAMS.

The Division has a database which serves two purposes--one tracking demographic and service information on blind and visually impaired clients and second serving as an authorization/billing mechanism for the purchase of goods and services for clients served. The programs which have data residing in the database are the Independent Living Services Program (SSBG funded), Medical Eye Care Program, Vocational Rehabilitation Program, and Independent Living Rehabilitation Program (funded through federal rehabilitation and state funds). These are the programs which serve the largest number of individuals and which purchase goods and services during the course of assisting blind and visually impaired individuals in reaching their stated goals.

Based upon preliminary discussion with programming staff at the Division of Information Resource Management (DIRM), it appears likely that an unduplicated count can be obtained from the database for the four programs which reside in the database with little or no modification to the database. Because of the nature of the services provided, these are the four programs which would most likely serve a client on more than one occasion during a year or where a client would be served by more than one program during the year, thus resulting in a duplicate report. This step alone should take care of most of the duplicate counts. At the same time the Division will be able to provide client count by program, a function which the Division believes to be important and which the audit seems to support.

In response to the recommendation that other programs including all Governor Morehead School programs, Business Enterprises, Special Assistance for the Blind and Personal Care Services be added to the database, the Division's Automation Committee will discuss the recommendation and ask for an estimate of time and money required to accomplish this objective. However, our initial reaction is that the limited number of clients served in these programs and the reliability of the figures which each program can currently provide combined with the fact that only limited duplication should occur between the programs leads us to question whether the value of modifying the database would be worth the cost in terms of programming time and required updates to the files.

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SOME POLICIES AND PROCEDURES ARE NOT CURRENT AND ARE NOT BEING CONSISTENTLY FOLLOWED.

The Division acknowledges that update to the Business Enterprises manual is needed. A process of policy review was begun about a year ago with some older and unnecessary policies being deleted and some overlapping policies being combined, but the process was not completed and it should be.

There are also policy manuals for the Independent Living Services Program, Medical Eye Care Program, Personal Care Services Program and Vocational Rehabilitation Program. All of these manuals have undergone review and revisions within the past two years.

Every three to five years Congress reauthorizes the Rehabilitation Act and issues revised regulations governing programs under the Act. State policies are reviewed and revised each time the Act is reauthorized in order to bring policies into compliance. Much of the content of the state policies reflects federal law and regulation. Division policies are reviewed annually by the Rehabilitation Services Administration, the federal agency under the Department of Education which is responsible for monitoring state rehabilitation agencies. The Division's policies have been determined to be in compliance with federal law and regulation.

Because of the federal requirement that clients have some involvement in the choice of goals and services and because absolute caps are not allowed by federal regulation and case law, some flexibility must exist within the Division's Vocational Rehabilitation policies. Policies have been put into place which provide guidance and parameters for the "routine" service situations but also allow for exceptions when they are warranted. It is the practice of the Agency to grant exceptions via approval of administrative staff in Raleigh and to provide written documentation of the decision and justification. To use one example from the audit report, it is common practice to pay lodging for clients at the appropriate in-state or out-of-state rate as set forth by the General Assembly, but it is also possible for clients to request and receive excess lodging just as state employees can request and receive excess lodging under special circumstances. To the extent that the agency has appeared to act outside of stated policy, the client has, we believe, been the beneficiary and the intent has been to do all that can reasonably be done to make the client independent and self-supporting. Division management will, however, reinforce with staff the importance of acting within policy and, when exceptions are appropriate, seeking support from the Central Office in Raleigh prior to taking action.

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### DSB DOES NOT HAVE A COMPREHENSIVE TRAINING PROGRAM FOR STAFF.

We concur strongly with the spirit of this finding and recommendation. It is beyond dispute that Division staff would benefit from the kind of intensive and extensive training program envisioned by the audit. However, to be understood fully, some additional points must be made.

First, there are significant inconsistencies in the level of training presently provided to Division staff depending upon the training funds that are available in the program for which they work. For example, the vocational rehabilitation program affords its staff many training opportunities as the result of a significant federal grant which must be used for the training of staff who provide vocational rehabilitation services to vocational rehabilitation clients. An employee committee, the Human Resources Development Advisory Council, has been charged with the responsibility of assessing training needs within this program and arranging training to meet those needs.

Similarly, the Governor Morehead School has a reasonable level for staff training.

On the other hand, the Independent Living Services Program represents an example of the other extreme. The problem of minimal funds for staff training is complicated by additional considerations. These include the number of staff in the program (57 social workers for the blind, 3 area social services supervisors, and 4 children's program consultants) and the distribution of this staff throughout North Carolina. Moreover, due in large part to the fact that these employees frequently travel to the homes of the clients to provide services, travel funds for this program are also perennially in short supply. This is not a desirable situation but one which we have not yet found an optimal way to defeat.

Second, at a time when the budget reduction process has become routine, administrative ranks have shrunk to help fund these reductions; and there is general reluctance to cut funds for direct services, training funds often feel the pinch.

Third, as noted in the audit, additional funds would be required to implement this recommendation. We have not yet identified the required amount, but we would welcome the opportunity to do so.

### BUDGET INFORMATION IS NOT DISSEMINATED TO PROGRAM MANAGERS ON A TIMELY BASIS.

DSB acknowledges that it has been more difficult to define and distribute the budget information needed by program managers to monitor their budgets since

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moving from the Departmental Accounting System to the North Carolina Accounting System (NCAS). Reports are not automatically prepared in the format and on the schedule that staff had been accustomed to under the previous system. The migration to the new system has been complicated by the fact that all DSB office locations do not have LAN access so even with training would not be able to access the budget information independently. We now have four of our seven district offices on the LAN and will focus on providing training for those supervisors in addition to the program managers. A system for providing hard copy of the information is being developed for the offices which do not have LAN access. Our long-range goal will be to have LAN access for all district offices but that will be fairly expensive, and we are reluctant to make significant financial investments in office space which is leased.

### DSB HAS NOT DESIGNED NCAS REPORTS SHOWING FINANCIAL DATA BY VENDING FACILITIES.

Based upon our discussion with staff of the DHHS Controller's Office relative to this finding and recommendation, we have been advised that it is possible under the current operations system to capture financial data relative to a given location although the Division has rarely seen the need to do so. Information about a location's annual operation can be generated by adding together that data which corresponds to the periods of time when the various vendors operated that location. According to the DHHS Controller's Office, all the data elements are in the NCAS system to provide such an analysis if an existing IE report could be reprogrammed to resort the data by location instead of by vendor. The Division has not requested that such a report be generated. While we have not experienced a problem in monitoring earnings or potential earnings of a given location, if this type problem should arise in the future, it is good for us to know that we can obtain the data discussed in this finding.

### THE GOVERNOR MOREHEAD SCHOOL IS USING SUBSTITUTE FUNDS IN A QUESTIONABLE MANNER.

The language in the audit finding regarding the insufficiency of funds initially budgeted for contractual services at the Governor Morehead School is accurate. It is also accurate that lapsed salaries are used to remedy this shortfall. This practice became customary a few years ago, when difficult to fill positions such as those for occupational therapists and physical therapists were eliminated during rounds of position reductions. At the time of elimination, these positions had been vacant for months and we were already contracting for the services. The understanding was that we would give up the positions and use lapsed salaries to pay for the contracts for these services.

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Thus, we concur with the recommendation that this perennial shortfall be addressed through the continuation process.

Regarding the issue noted with vacant teacher and educational development aide positions, it must first be made clear that no such position has been left vacant longer than necessary so as to generate additional lapsed salary funds. The vacant teacher position referenced in the audit finding remained vacant for a period of six weeks and was covered by a substitute teacher. Given the relative scarcity of teachers certified in the field of visual impairment in North Carolina and the various steps in the personnel process, it is not atypical or unacceptable for a teaching vacancy to take that long to fill. It is also our understanding that using someone in a substitute teacher or educational development aide position to cover a vacant permanent teacher or educational development aide position does not violate applicable law or personnel policy.

Even so, after careful consideration, we also concur with that part of the recommendation to the effect that individuals who are filling vacant teacher or educational development aide positions on a temporary basis should be paid from these positions rather than from substitute positions. We believe that this deployment will allow for more effective use of a limited number of substitute positions and will thus implement this measure immediately.

### FOLLOW-UP OF PRIOR FINANCIAL RELATED AUDIT.

DSB has taken steps designed to address the issues cited in the most recent Single Audit.

In three of thirty-eight cases reviewed, eye exam reports were not in the file. Staff were provided written reminder of the necessity of having reports in the file as appropriate for either determining eligibility for treatment or prior to paying bills for services rendered. Additionally staff have been asked to make certain that the required reports are in the file when conducting quality assurance reviews.

It is accurate that a number of problems arose related to the payment of invoices for the provision of services under the Supported Employment Program--problems which originated with incorrect coding of invoices, lack of timely submission of invoices both by the provider and by the staff of the Division to the Controller's Office, and problems which arose simply out of the timing of the payment of invoices during end-of-year close-out of the books. Procedures have been implemented which we believe will reduce and hopefully eliminate the problems outlined.

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### DSB HAS PROVIDED QUESTIONABLE EMPLOYMENT SERVICES TO A CLIENT.

DSB management wishes to make clear that the seeming excessive assistance cited in the findings and the accompanying recommendations relate to a single client who has, admittedly, presented the Division with a unique challenge from the job placement standpoint. The client has a highly specialized degree. There are very limited opportunities for placement; so in an effort to enable the client to avail himself of every possible opportunity to identify potential openings in the field, the Division has employed means outside those typically needed for clients to achieve their employment goal. For example, the client had, in fact, been employed in Greece some time prior to the Agency-sponsored trip to Greece. Thus it was reasonable to believe that he could obtain employment there again in his specialized area. At the time the job in Greece was turned down, there seemed to be a good possibility of employment in another state--a gamble which the client took and unfortunately lost. The trip to Greece occurred in 1991. To our knowledge no overseas trips had occurred prior to that time, and we are certain that none have occurred since. The audit staff did raise this question and were provided this information. Agency involvement in any trips of this type would be approved by top management within the Division.

The findings raise questions about the travel provided to the same client cited in the example of the overseas trip above. Because of the specialized field in which this client has been seeking employment, the Division has agreed to sponsor his attendance at one conference per year for the purpose of making contact with others in the field, contacts which would hopefully lead to job opportunities. When out-of-state trips were sponsored in association with job interviews, the Division has obtained documentation of the scheduled interview just as it has obtained conference agendas in the case of conference attendance.

The Division understands and accepts the point made regarding independent travel relative to this client (same as in two paragraphs above) and acknowledges that it would have been more acceptable had the client traveled independently rather than with a guide. It is still possible, however, in the case of the client and given the type positions that he would be applying for that a reader would have been required as a reasonable accommodation under the Americans with Disabilities Act (ADA).

Based on the recommendation, the Division will give special attention to future requests for out-of-state travel for clients and will document in the file any approvals of and justifications for such trips. Every effort will be made to make certain that such trips are handled in the most cost effective manner possible. The Division does not want the one client example cited throughout this finding and recommendation to be viewed as the norm--it is clearly an exceptional client situation for which exceptional steps have been taken to try to reach a job goal.

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### THE POLICY ALLOWING DSB TO PURCHASE VEHICLES FOR CLIENTS IS OPEN ENDED.

While this service is not frequently provided as part of the Rehabilitation Program, the Division is willing to review the policy to see if some of the points raised in the audit can be addressed in more specificity in the policy.

### CURRENT SET-ASIDE STRUCTURE MAY NOT BE ACCOMPLISHING THE OBJECTIVES INTENDED BY THE LEGISLATURE.

The Division has studied carefully the current set-aside rate structure as laid out in G.S. 111-50 to determine if it meets the current needs of the Division. It does. The Division does not accept without qualification the premise that the intent of the General Assembly was simply to have those operators with the highest incomes pay at the higher set-aside rates. We believe that a condition precedent for an operator to pay at a higher rate is to have income that is so high that it reaches certain statutorily specified levels. The Division views the current set-aside structure as fair and equitable in that every vendor pays set-aside on the first dollar of net income and according to the same formula under the same rules as every other vendor. The Division would welcome the ability and authority to establish and manage its own set-aside rate structure in conjunction and partnership with the federal Rehabilitation Services Administration apart from state statutory considerations as was done prior to 1992. This would allow for a more flexible future response to changing fiscal needs within the Business Enterprises Program.

### DSB DOES NOT AUDIT VENDOR RECORDS FOR ACCURACY.

The financial records of vendors who operate above the accounting level of "Category A" are audited twice yearly using a standard form, the Record Keeping Review form. Individual counselors might use the form differently or there might be a need for additional training in the proper use of the form, but a standard review mechanism does exist. No vendors at this level are exempt from the review, and it would be less useful to move backwards to a system of random or routine selection for audit when the majority of vendors are already studied each year under the present system to determine the accuracy and reliability of their reports.

The costs associated with DSB-provided management services are known and are properly charged against set-aside collections each year. This is as outlined in the federal regulations which govern this program and which specifically outline and define "management services" citing it as one of the allowable charges against set-

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aside funds. To “bill separately” would be to impose an additional “set-aside” charge against the vendors above and beyond that allowed in statutes and would be in violation of both federal regulations delineating how the program is to be funded as well as state statutes regarding set-aside.

### CURRENT PROCEDURES RESTRICT THE NUMBER OF HIGHWAY VENDING FACILITY OPERATORS.

Regarding the establishment of operator-attended highway vending locations along the North Carolina interstates, the audit states that “DSB had not performed any analysis regarding the income potential of these stands prior to entering into contracts with these vendors.” The focus of this finding is the two-sided highway vending rest areas where both sides of an interstate rest area were awarded to a single vendor as “one” location from which he would earn an income. Division management does not view this observation as accurate.

In fact, prior to the placement of blind vendors in these locations the highway vending sites were initially contracted to private commercial vending companies with commissions being paid into the Division based on gross sales volumes. Based on the commissions received, a very careful analysis was done to determine the likely income potential of highway vending sites. Estimates turned out to be incorrect. Possible explanations include underpaid commissions or underrepresented gross sales figures.

A secondary factor that has resulted in higher incomes for blind vendors is the public acceptance of these vending efforts along the interstates. Prior to the mid-1980’s, rest areas that did exist offered no vending or refreshment service. As we began to offer these services and more rest areas came to exist along new and improved interstates, the public acceptance and utilization of our vending services were exceptional. The traveling public today expects a level of service availability that we could never have anticipated as we began to consider highway vending projects ten years ago. We provide a service that is appreciated and well patronized by citizens traveling in North Carolina. Vendors benefit directly from this patronage to a degree unimagined at the time when critical decisions were made about starting the highway vending program.

The Division has studied the issue of dual-sided highway vending locations being split into separate facilities, and we recognize the merit and appeal of the recommendation. This Division has maintained for some time that, upon a vacancy being created in one of these locations, the Division has the right to split the facility, advertise the availability of two locations, and to accept applications for two operator contracts where only one existed before. We continue to hold this belief. In fact, this action would be very controversial and would only be taken after a

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careful study and determination that the two new facilities could each support an operator and that the potential exists for available operators to be interested.

The splitting of these facilities in the absence of a vacancy would be devastating to the current operator and an act of bad faith as the original awards were made for both sides to be serviced under one contract. Implementation of this recommendation would require additional financial and personnel resources in order to maintain the current level of direct services provided to facility operators.

Current program growth properly accommodates the number of incoming vendors who are newly licensed each year. Reference is made in the audit report to a “waiting list” of approximately 20 clients with the reference implied that these individuals were waiting for opportunities to work in Business Enterprises. In fact, we have a mailing list of individuals who are licensed to work in the program but not currently under contract at any location. Some of these individuals have never applied for any vacancy that has been advertised. It is not the Division’s perception that these individuals are “waiting” for an opening to occur in order to seek employment at a vending facility as vacancies are advertised every month in various locations across the State. Others on the mailing list have left the program after working many years and desire to remain on the list for vacancy advertisements in the event that just that perfect opportunity should become available. Finally, others on that list have had their prior contracts terminated for various reasons and yet remain eligible to reapply even as their chances for being put under a new contract are very slim. The Division does not view this list as a “waiting” list but rather as a “mailing” list. Actually, we have already experienced situations where vacancies had to be advertised more than once because no applications were received.

### THE BUSINESS ENTERPRISES CONTRACTUAL AGREEMENTS ARE MISLEADING.

The purpose of the Business Enterprises Program is to provide jobs and job opportunities as outlined in the federal legislation which authorizes the program. While operators can and do leave the Program to enter into private employment settings, it is not the stated goal of the program to “transition” blind vendors out of the Program and into some other type of employment. The Business Enterprises program is a jobs outcome program funded from federal rehabilitation funds and program generated profits with a goal of increasing the self-employment opportunities available for blind and visually impaired citizens.

Self-employment as a business enterprises operator is a legitimate outcome of rehabilitation services and is recognized as such by the Rehabilitation Services Administration. “Rehabilitation” doesn’t necessarily mean working for someone else but includes a broad range of self-employment options. The rehabilitation

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program of the Division does exist, separate and apart from the business enterprises efforts, to assist blind and visually impaired citizens in North Carolina obtain work in the “open market.” It is unclear from the written recommendation just what problems are believed to exist in the Business Enterprises program training or what legislation might require changes.

The Division agrees that the wording of the contractual agreements used with vendors could be clearer and program staff have been asked to work with the Elected Committee of Vendors to make those changes. The Division already has the right, which is recognized by all vendors, to examine all records relative to the operation of a Business Enterprises facility.

### VENDING OPERATORS ARE RECEIVING START-UP GRANTS FROM DSB FOR EXTENDED PERIODS OF TIME.

The federal guidelines under which this Division operates the Business Enterprises Program require that assurances be made in the Division’s rules and regulations that no individual will be denied the opportunity to become a vendor because of the individual’s “unwillingness or inability to purchase facility equipment or initial stocks.” Adoption of a policy that would require vendors to “repay” or purchase initial stocks or petty cash could run contrary to federal regulations. The Division’s current system for monitoring individual operator performance and adherence to financial standards, as well as our system of transfer and promotion, is based on knowing or being able to know at any given time the inventory level in a particular facility. Should the Division not retain title to this inventory, the question could arise as to what right we have to know about inventory levels apart from the departure of an individual vendor from a facility.

Many operators are not in a financial position to make paybacks of those initial items that are provided for them and which are mandated by regulation as something this Division must do in support of the program. The accounting headaches of tracking the paybacks could become as cumbersome as the current system of tracking inventories.

### THE REHABILITATION TRAINING FACILITY IS UNDER-UTILIZED.

The Rehabilitation Center for the Blind is a statewide residential training program for adults who are visually impaired or blind. The training focuses on personal, social and pre-vocational skill development. The major components of the program are: Home Management (cooking, techniques of daily living, client education, sewing); Orientation and Mobility (learning to travel safely within a home, school, or work environment, mall travel, residential and business areas); Communication Skills (Braille, adaptive computer technology, keyboarding, handwriting, remedial

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education, recreation & leisure); and Pre-Vocational (career exploration, medical transcriptionist, Business Enterprises training and Introduction to Food Science).

The Business Enterprises training is one of the various training opportunities available at the Rehabilitation Center. The BE training is cooperatively developed by the chief of the Business Enterprises Program and the teaching staff of the Rehabilitation Center. The BE training is a concentrated 6-week program with the BE students participating in the BE training for 6+ hours per day. The 6-week program is offered four times per year; class size is ideally at a one to four ratio. Size of class can vary to accommodate individual needs.

The Center also offers clients the Introduction to Food Science modules which emphasize other types of job opportunities in food service. Some clients can train as cashiers; others as stock clerks, short order cooks, dishwashers, etc. When not in use specifically for BE training, the classroom setting where that training is provided is used for other types of training which prepares clients for jobs in the food service industry as described above. The Division and the Center are always interested in finding ways to more effectively utilize space and will continue to try to use the existing space in the ways which meet the needs of the greatest number of clients.

To enhance clients'/employers' awareness of the Center and the BE Program, DSB has developed brochures and a handbook which are focused toward clients and business. As funding permits, DSB plans to expand into other media forms.

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December 31, 1997

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