



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Performance Audit*

## *Business Enterprise Program*

## *Bureau of Services for Blind Persons Department of Licensing and Regulatory Affairs*

Report Number:  
641-0230-11

Released:  
November 2012

*The Business Enterprise Program (BEP) is designed to assist people who are blind to achieve social and economic independence by licensing blind persons to operate vending facilities in federal and State buildings as well as highway rest areas and visitor centers. The Michigan Commission for the Blind (MCB), statutorily designated as the vocational rehabilitation service agency for the blind in Michigan, was responsible for administering BEP. However, effective October 1, 2012, Executive Order No. 2012-10 abolished MCB and created the Bureau of Services for Blind Persons.*

### ***Audit Objective:***

To assess the effectiveness of MCB's efforts to ensure that BEP operators' monthly vending facility reports (VFRs) are accurate and properly supported.

### ***Audit Conclusion:***

We concluded that MCB's efforts to ensure that BEP operators' monthly VFRs are accurate and properly supported were not effective. We noted one material condition ([Finding 1](#)).

### ***Material Condition:***

MCB did not effectively validate BEP operators' monthly VFRs ([Finding 1](#)). As a result, the Department of Licensing and Regulatory Affairs (LARA) could not ensure that it properly calculated and paid operator retirement contributions, the Office of Retirement Services (ORS) could not ensure that it properly calculated and paid BEP operator pension benefit payments, and MCB could not ensure that it properly assessed BEP operator set-aside fees.

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### ***Audit Objective:***

To assess the effectiveness of MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities.

### ***Audit Conclusion:***

We concluded that MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities were not effective. We noted two material conditions (Findings 2 and 3).

### ***Material Conditions:***

MCB did not effectively ensure that its promotional agents monitored and assisted BEP operators with their vending facilities ([Finding 2](#)). As a result, MCB could not ensure that the BEP operators maximized their service delivery and profitability and operated their vending facilities in compliance with *Michigan Administrative Code* requirements.

MCB had not effectively utilized its information technology system to

document, assess, and monitor BEP operations (Finding 3). As a result, MCB did not have accurate and relevant information sufficient for comparing actual outcomes to desired outcomes and subsequently identifying potential improvements in effectiveness and efficiency.

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**Audit Objective:**

To assess the effectiveness of MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*.

**Audit Conclusion:**

We concluded that MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code* were not effective. We noted one material condition (Finding 4).

**Material Condition:**

MCB did not consistently expend set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code* (Finding 4). As a result, we estimated that, from October 1, 2008 through July 31, 2011, MCB improperly expended \$254,000 (27.9%) of the \$910,000 in set-aside fees collected.

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**Audit Objective:**

To assess the effectiveness of MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded.

**Audit Conclusion:**

We concluded that MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded were not effective. We noted two material conditions (Findings 5 and 6).

**Material Conditions:**

MCB did not properly account for all equipment items at BEP vending facilities located throughout the State (Finding 5). As a result, MCB could not ensure that State-owned equipment items were properly safeguarded, recorded, and maintained. Also, MCB's equipment inventory was overstated by \$697,000 and the State's accounting records were overstated by \$347,600.

MCB's contractor selection and contract monitoring processes were not sufficient to ensure that products and services were acquired at competitive prices and were in compliance with State purchasing policies and procedures (Finding 6). The use of sound business practices when awarding and monitoring publicly funded contracts helps to ensure that desired products and services are acquired at competitive prices and that the business community has a fair and equal opportunity to participate in publicly funded projects.

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**Agency Response:**

Our audit report contains 6 findings and 6 corresponding recommendations. The Bureau of Services for Blind Persons' preliminary response indicates that it agrees with 5 recommendations and partially agrees with 1 recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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November 27, 2012

Mr. Edward F. Rodgers II, Director  
Bureau of Services for Blind Persons  
Victor Center  
Lansing, Michigan  
and  
Mr. Steven H. Hilfinger, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan

Dear Mr. Rodgers and Mr. Hilfinger:


This is our report on the performance audit of the Business Enterprise Program, Bureau of Services for Blind Persons, Department of Licensing and Regulatory Affairs (LARA), in response to a request from LARA.

This report contains our report summary; description of program; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; three exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

  
Thomas H. McTavish, C.P.A.  
Auditor General



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BUREAU OF SERVICES FOR BLIND PERSONS  
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS**

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## Description of Program

The federal Randolph-Sheppard Act of 1936, as amended, authorizes blind persons\* to operate vending facilities\* in federal buildings. The Act requires that the states designate a licensing agency to carry out the purposes of the Act. Act 160, P.A. 1984, expanded the operation of vending facilities by blind persons to include highway rest areas and visitor centers.

The Business Enterprise Program (BEP) is designed to assist people who are blind to achieve social and economic independence by licensing blind persons to operate vending facilities in federal and State buildings as well as highway rest areas and visitor centers. BEP licenses operators\*, purchases equipment and initial inventory for operators' vending facilities, receives operators' monthly vending facility reports, and assesses operators' set-aside fees.

Act 260, P.A. 1978, created the Michigan Commission for the Blind (MCB) and designated it as the vocational rehabilitation service agency for the blind in Michigan. During our audit, MCB administered BEP, and MCB promotional agents\* were charged with providing ongoing support to and monitoring of the BEP operators. On June 27, 2012, the Governor signed Executive Order No. 2012-10 (see Exhibit 1). Effective October 1, 2012, the Executive Order abolished MCB and created the Bureau of Services for Blind Persons as a type II agency within the Department of Licensing and Regulatory Affairs. Also, the Executive Order named the Bureau of Services for Blind Persons as the State licensing agency under the Randolph-Sheppard Act.

BEP expended \$3.0 million for fiscal year 2009-10 and \$8.1 million for the period October 1, 2008 through August 31, 2011 (see Exhibit 2) and had 8 employees as of July 2011. BEP had 84 licensees who operated approximately 400 BEP sites\* throughout the State (see Exhibit 3).

\* See glossary at end of report for definition.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of the Business Enterprise Program (BEP), Michigan Commission for the Blind (MCB), Department of Licensing and Regulatory Affairs (LARA), had the following objectives:

1. To assess the effectiveness\* of MCB's efforts to ensure that BEP operators' monthly vending facility reports (VFRs) are accurate and properly supported.
2. To assess the effectiveness of MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities.
3. To assess the effectiveness of MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*.
4. To assess the effectiveness of MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded.

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and in response to a request from LARA.

### Audit Scope

Our audit scope was to examine the program and other records of the Business Enterprise Program. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from July through October 2011 and from April through May 2012, generally covered the period October 1, 2008 through July 31, 2011.

\* See glossary at end of report for definition.

As part of our audit, we compiled and reported supplemental information that relates to BEP operations (see Exhibits 2 and 3). Our audit was not directed toward expressing a conclusion on this information and, accordingly, we express no conclusion on it.

### Audit Methodology

We conducted a preliminary review of MCB's and BEP's operations to formulate a basis for establishing our audit objectives and for defining our audit scope and methodology. This included analyzing BEP expenditures; interviewing MCB and BEP staff; surveying BEP operators; and reviewing applicable federal and State laws, State rules, and BEP's procedures and operations manual. We reviewed an internal audit report, examined MCB's processes for reviewing operator monthly VFRs and documenting MCB promotional agents' site visits, and analyzed available data from MCB's information technology system.

To assess the effectiveness of MCB's efforts to ensure that BEP operators' monthly VFRs were accurate and properly supported, we obtained information regarding the processes and procedures used to verify the accuracy of the monthly VFRs. Also, we examined MCB reviews of the BEP operators' monthly VFRs.

To assess the effectiveness of MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities, we interviewed MCB staff regarding promotional agents' site visits and BEP operator complaints. We surveyed BEP operators regarding MCB's efforts to assist BEP operators. We analyzed site visit data, including on-site visit documentation. We asked MCB staff about its vending facility, site, and BEP operator profitability analyses. We obtained BEP operator financial data to determine if BEP operator net income and BEP operator payments due were accurately calculated.

To assess the effectiveness of MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*, we met with MCB staff to obtain an understanding of internal control\* over expending set-aside fees. Also, we tested set-aside fee expenditures to determine whether the expenditures were in accordance with the *Michigan Administrative Code*.

To assess the effectiveness of MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded, we analyzed equipment data from MCB's

equipment inventory records. We visited various BEP sites to inspect selected equipment items. In addition, we reconciled fiscal year 2010-11 BEP equipment purchases in the Michigan Administrative Information Network\* (MAIN) with invoices and MCB's equipment inventory records to determine whether MCB accurately documented purchase prices and properly expensed or capitalized the equipment items. Also, we interviewed MCB staff regarding their process for conducting annual equipment inventories.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 6 corresponding recommendations. The Bureau of Services for Blind Persons' preliminary response indicates that it agrees with 5 recommendations and partially agrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require LARA to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

Within the scope of this audit, we followed up 1 of the 8 prior audit recommendations from our October 2004 performance audit of the Michigan Commission for the Blind, Department of Labor and Economic Growth and Family Independence Agency (43-231-03). This prior audit recommendation was rewritten for inclusion in Finding 5 in this audit report.

\* See glossary at end of report for definition.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## EFFORTS TO ENSURE ACCURATE AND PROPERLY SUPPORTED MONTHLY VENDING FACILITY REPORTS

### COMMENT

**Audit Objective:** To assess the effectiveness of the Michigan Commission for the Blind's (MCB's) efforts to ensure that Business Enterprise Program (BEP) operators' monthly vending facility reports (VFRs) are accurate and properly supported.

**Audit Conclusion:** We concluded that MCB's efforts to ensure that BEP operators' monthly VFRs are accurate and properly supported were not effective. Our assessment disclosed one material condition\*:

- MCB did not effectively validate BEP operators' monthly VFRs (Finding 1).

### FINDING

#### 1. Operators' Monthly Reports

MCB did not effectively validate BEP operators' monthly VFRs. As a result, the Department of Licensing and Regulatory Affairs (LARA) could not ensure that it properly calculated and paid operator retirement contributions, the Office of Retirement Services (ORS) could not ensure that it properly calculated and paid BEP operator pension benefit payments, and MCB could not ensure that it properly assessed BEP operator set-aside fees\*.

The accuracy of the monthly VFRs is imperative because the VFRs represent the basis for calculating BEP operator retirement contributions, pension benefit payments, and set-aside fees. The amount of retirement contributions paid by LARA to the Michigan State Employees' Retirement System in fiscal year 2010-11 on behalf of BEP operators totaled \$625,000. The amount of pension benefit payments paid to all 51 retired BEP operators in fiscal year 2010-11 totaled \$1,046,000. The amount of set-aside fees collected by MCB in fiscal year 2010-11 totaled \$276,000.

*Michigan Administrative Code R 393.27(2)* requires that each BEP operator prepare MCB's standard monthly VFR. The VFR's major components include

\* See glossary at end of report for definition.

business expenses, taxes paid, profit, and financial operations. Also, the *Michigan Administrative Code* states that the VFR shall be an accurate and true report. Act 240, P.A. 1943, as amended, deems BEP operators State employees for retirement purposes only. BEP operators submitted approximately 2,800 monthly VFRs to MCB during our audit period.

MCB informed us that it randomly reviews approximately 8 BEP operators' monthly VFRs for accuracy and supporting documentation each month and that, after such reviews, it sends letters to the BEP operators and MCB promotional agents, informing them of the results. MCB expects its promotional agents to follow up with the BEP operators regarding any shortcomings identified in the reviews. However, MCB did not provide documentation, including letters sent to the BEP operators and promotional agents, to support whether it had reviewed 176 (81.5%) of the 216 monthly VFRs that BEP should have reviewed during our audit period.

Our review of 20 (50.0%) of the 40 letters that MCB sent to BEP operators disclosed that MCB informed the BEP operators about their sales increases or decreases but did not address whether such increases or decreases were supportable and reasonable. Also, 11 (55.0%) of the 20 monthly VFRs had shortcomings for which MCB should have requested additional information. For example, we noted reports for which BEP operators did not submit receipts supporting the calculation of net proceeds and net income. Also, some BEP operators did not report changes in beginning and ending inventory amounts. Further, MCB did not send these 20 letters to the promotional agents. Thus, further follow-up of the shortcomings did not occur.

ORS calculates retirement payments for the BEP operators based on the BEP operator's highest final average compensation for a 3-year consecutive period, years of service, and a pension factor. We analyzed net income reported by all 20 BEP operators who retired and began receiving pension payments during the audit period. Our analysis determined that 5 (25.0%) of the 20 BEP operators reported their highest average 3-year consecutive net income in the last 3 years of operation or in the last 3 years prior to their last year of operation. Also, the final average compensation for the 5 individual BEP operators increased 0.5%, 3.9%, 4.9%, 38.6%, and 40.9%, respectively, when compared with their prior 3-year average consecutive period of net income. The 38.6% and 40.9% increases

represented \$13,932 and \$21,956, respectively, in increased final average compensation. BEP's verification of the accuracy of the operators' monthly VFRs would allow MCB to determine the reasonableness of these increases.

### **RECOMMENDATION**

We recommend that MCB effectively validate BEP operators' monthly VFRs.

### **AGENCY PRELIMINARY RESPONSE**

The Bureau agrees in part. The Bureau of Services for Blind Persons will work with the Elected Operators' Committee to identify a mutually beneficial methodology to review fiscal data reported to the Bureau by its licensees. Also, the Bureau will seek technical assistance in determining methods to conduct reviews that meet the scope of authority as enumerated in the BEP Promulgated Rules and will update rules if found to be needed.

The Bureau does not dispute that there may have been errors in reporting, assessment, and payment of set-aside fees, operator retirement contributions and payments, and Internal Revenue Service (IRS) taxes paid. However, the Bureau informed us that it is aware of instances in which unusual (but legitimate) circumstances occurred. Thus, the proposed reviews will afford due process by distinguishing between attempts to defraud ORS and legitimate actions taken by licensees to increase final compensation.

The Bureau informed us that it operates under the supposition that it is not the employer of any licensee. And, per the Bureau, the sole relationship between licensees and the Bureau is that of licensor and licensee. The Bureau stated that this relationship typically would not grant specific authority to the Bureau over the operations, maintenance of records, or standard business controls of any of the facilities under the program.

To avoid potential legal liability, the Bureau will consult with the Department of Attorney General (prior to implementation) to seek guidance regarding restrictions resulting from the Bureau's relationship with its licensees and current promulgated rules.



## EFFORTS TO MONITOR AND ASSIST BEP OPERATORS

### COMMENT

**Audit Objective:** To assess the effectiveness of MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities.

**Audit Conclusion:** We concluded that MCB's efforts to monitor and assist BEP operators in running profitable and well-managed vending facilities were not effective. Our assessment disclosed two material conditions:

- MCB did not effectively ensure that its promotional agents monitored and assisted BEP operators with their vending facilities (Finding 2).
- MCB had not effectively utilized its information technology (IT) system to document, assess, and monitor BEP operations (Finding 3).

### FINDING

#### 2. Monitoring and Assisting of Operators

MCB did not effectively ensure that its promotional agents monitored and assisted BEP operators with their vending facilities. As a result, MCB could not ensure that the BEP operators maximized their service delivery and profitability and operated their vending facilities in compliance with *Michigan Administrative Code* requirements.

MCB promotional agents are MCB's representatives to the BEP operators, and they perform a supervisory role in BEP. *Michigan Administrative Code* R 393.21(2) requires that an MCB promotional agent visit each vending facility every 6 weeks to assist the BEP operator in running a clean and efficient business and to assess BEP operator compliance with *Michigan Administrative Code* R 393.21(1), which includes assessing whether the BEP operator is meeting profit expectations.

We surveyed 20 BEP operators regarding MCB's monitoring and assistance efforts. Ten (50.0%) BEP operators felt that they did not receive the assistance necessary to run their businesses, that MCB needs to improve its communication efforts with BEP operators, and/or that MCB staff, including promotional agents,

are not timely in responding to BEP operators' requests for assistance. Also, 2 (10.0%) BEP operators stated that, in their opinion, there was no accountability for the promotional agents.

In addition, our review of MCB's process for ensuring that its promotional agents effectively monitor and assist BEP operators disclosed that MCB neither provided its promotional agents with sufficient training nor evaluated its promotional agents' efforts:

- a. MCB promotional agents did not regularly conduct on-site visits to the BEP operators' vending facilities.

Our analysis of promotional agents' on-site visits during our audit period disclosed that 30 (33.3%) of 90 BEP operators had not received any on-site visits for over one year. Also, although the promotional agents documented approximately 1,300 on-site visits during our audit period, we determined that, based on the requirements in the *Michigan Administrative Code*, approximately 2,100 on-site visits should have been conducted. In addition, we noted that 9 (17.3%) of 52 on-site visit forms that we reviewed were not for on-site visits but were instead for various contacts, such as telephone calls and e-mails, that the promotional agents had with BEP operators. As a result, we estimate that, of the approximately 1,300 agent-documented on-site visits, only 1,100 (84.6%) were for actual on-site visits. Thus, we concluded that the promotional agents did not conduct an estimated 1,000 (47.6%) of the approximately 2,100 required on-site visits during our audit period.

This lack of on-site visits by the promotional agents limits MCB's ability to adequately monitor BEP operators and vending facilities in all assessment areas and to determine whether BEP operators are in compliance with *Michigan Administrative Code* requirements. It also limits BEP's ability to assist BEP operators in maximizing their service delivery and profitability.

- b. MCB promotional agents did not sufficiently document the results of their BEP operator and vending facility visits.

MCB informed us that it instructed its promotional agents to document the results of their vending facility visits on generic site visit forms rather than on the monthly facility visitation forms because, according to MCB, the BEP operators complained that the monthly facility visitation forms were too intrusive. Our review of 52 of the completed generic site visit forms disclosed that the generic form did not require the promotional agents to document, and the promotional agents did not document, all observations and assessment areas that were included in the monthly facility visitation form and required by the *Michigan Administrative Code*.

The lack of sufficient documentation of on-site visits further limits MCB's ability to monitor a BEP operator or a vending facility's progress, improvement, or need for additional support to maximize its service delivery and profitability. It also limits MCB's ability to ensure that the BEP operator is in compliance with *Michigan Administrative Code* requirements.

- c. MCB promotional agents did not analyze financial activity by vending facility and by site to ensure that all vending facilities and sites were financially viable. Instead, MCB's process was to analyze financial activity only by BEP operator. However, BEP operators can be responsible for several sites within their vending facilities, and BEP operators can switch vending facilities. Thus, analyzing financial activity only by BEP operator does not identify the true financial activity, including profitability, of each vending facility and site.
- d. MCB promotional agents did not centrally log BEP operator complaints. As a result, MCB could not ensure that its promotional agents timely addressed and resolved BEP operator complaints. Also, MCB could neither analyze trends in complaints nor identify appropriate corrective actions for each individual promotional agent. In addition, our survey of 20 BEP operators disclosed that 18 (90.0%) BEP operators stated that they discussed their concerns regarding their business operations with MCB; however, 11 (61.1%) BEP operators stated that they had not noticed meaningful results.

## **RECOMMENDATION**

We recommend that MCB effectively ensure that its promotional agents monitor and assist BEP operators with their vending facilities.

## **AGENCY PRELIMINARY RESPONSE**

The Bureau agrees and, for all parts of this finding, the Bureau will examine potential ways of maximizing service delivery, including the development of inspection protocols. The Bureau will develop on-site visit improvement strategies and will adopt employee performance measures that ascribe metrics to both the number and quality of on-site visits.

## **FINDING**

### **3. Utilization of IT System**

MCB had not effectively utilized its IT system to document, assess, and monitor BEP operations. As a result, MCB did not have accurate and relevant information sufficient for comparing actual outcomes to desired outcomes and subsequently identifying potential improvements in effectiveness and efficiency\*.

*Michigan Administrative Code R 393.1 - 393.199* establishes requirements regarding equipment, promotional agent responsibilities, and BEP operator profit expectations. To ensure compliance with *Michigan Administrative Code* requirements, MCB uses an IT system to document, assess, and monitor equipment, site visits to BEP operator vending facilities, and BEP operator financial activity.

However, our review of MCB's use of its IT system as a management oversight tool disclosed the following weaknesses:

- a. MCB promotional agents did not sufficiently document in MCB's IT system the results of their BEP operator and vending facility visits. As a result, MCB could not determine whether its promotional agents had performed on-site visits and assessed BEP operator and vending facility compliance with *Michigan Administrative Code* requirements (see Finding 2).
- b. MCB did not collect BEP operator financial activity reports in its IT system by site. As a result, MCB promotional agents had not analyzed BEP operators' activity by site to determine whether MCB assigned and/or continued to operate vending facilities or sites that were financially viable (see Finding 2).

\* See glossary at end of report for definition.

- c. MCB documented all BEP operator contacts as site visits. We determined that site visits, BEP operator complaints, customer requests for refunds, and BEP operator inquiries were all documented as site visits. As a result, MCB could not readily identify BEP operator complaints among the approximately 4,000 contacts documented in its IT system during the audit period. Proper identification and distinction of BEP operator complaints are critical for ensuring that promotional agents timely address and resolve BEP operator complaints, for analyzing trends in complaints, and for identifying appropriate corrective actions for each promotional agent (see Finding 2).
- d. MCB did not properly update its IT system to ensure that it had assigned all operational sites to vending facilities and that it had assigned promotional agents to all operational vending facilities. As a result, MCB could not determine whether 64 unassigned sites, 80 unassigned facilities, and 135 sites documented as duplicates in its IT system were operational and should have a promotional agent assigned.
- e. MCB's IT system did not consistently calculate the correct amount of BEP operator net income. As a result, MCB could not ensure that it provided ORS with accurate net income amounts for calculating BEP operator pension payments (see Finding 1).

For example, we manually calculated BEP operator net income from 6 monthly VFRs and compared our calculations with amounts documented in the IT system. Our comparison disclosed that the IT system incorrectly calculated net income for 3 (50.0%) of the 6 monthly VFRs. MCB's IT system calculated net income of \$0, \$2,479, and \$3,026 for these 3 monthly VFRs. We determined that net income should have been \$1,220, \$1,876, and \$2,012, respectively.

- f. MCB did not record in its IT system all equipment items purchased and all pertinent equipment information, such as condition, location, purchase date, and description. As a result, MCB could not ensure that equipment was properly maintained and safeguarded (see Finding 5). Also, MCB was not able to perform meaningful analyses of equipment needs regarding whether to transfer unused equipment or to purchase new equipment, resulting in MCB typically purchasing new equipment.

## **RECOMMENDATION**

We recommend that MCB effectively utilize its IT system to document, assess, and monitor BEP operations.

## **AGENCY PRELIMINARY RESPONSE**

Regarding part a. of this finding, the Bureau agrees and informed us that this has been a special focus of BEP staff since the beginning of the fiscal year. The Bureau stated that each month, immediately prior to staff meetings, the assistant program manager reviews the promotional agent's site visit status for each operator. According to the Bureau, staff in noncompliance will be directed to bring their site visit record up to date.

Regarding part b. of this finding, the Bureau agrees and will require licensees to submit separate VFRs for each of their vending facilities. BEP staff will utilize data from these reports to analyze each site's financial viability.

Regarding part c. of this finding, the Bureau agrees and informed us that staff have begun developing amended site visit and case note forms for implementation into the database. According to the Bureau, the new forms and database will flag complaints (distinguishing them from other contacts) and will include tracking functions to monitor resolution progress.

Regarding part d. of this finding, the Bureau agrees and informed us that, based on staff interaction with the auditors, work began to address this database anomaly prior to receipt of the audit memorandum.

Regarding part e. of this finding, the Bureau agrees and informed us that system developers have assured staff that this issue has been resolved for all monthly VFRs from April 2012 forward. The Bureau also informed us that it will study and review possible new software solutions with the goal of developing and implementing a new solution if a better product is available.

Regarding part f. of this finding, the Bureau agrees and informed us that it has taken steps to rectify this deficiency, including:

- The equipment inventory has been updated using procurement records to reflect equipment acquired from October 1, 2010 to date.

- The inventory has also been updated to reflect any equipment transferred from its most recent location.
- Safeguards are being put into place to ensure the accuracy of stored inventory and inventory movement by working with warehouse personnel in conjunction with using an ad hoc database for equipment repairs.
- The equipment inventory is verified each time that a licensee is inventoried into a BEP facility.

In addition, the Bureau informed us that, as BEP promotional agent staff conduct the 2012 annual cycle of evaluations with licensees, they have been charged with verifying the equipment inventory. The Bureau stated that it anticipates that this additional task will significantly lengthen the annual evaluation process, causing other promotional agent responsibilities to be reprioritized and/or adjusted accordingly. As a result, the Bureau stated that BEP is exploring the option of procuring a contractor to conduct the annual physical equipment inventory and, to that end, staff are currently developing a preproposal inquiry.

## **EFFORTS TO ENSURE EXPENDITURE OF SET-ASIDE FEES IN ACCORDANCE WITH THE *MICHIGAN ADMINISTRATIVE CODE***

### **COMMENT**

**Audit Objective:** To assess the effectiveness of MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*.

**Audit Conclusion:** We concluded that MCB's efforts to ensure that BEP expended set-aside fees collected from BEP operators in accordance with the *Michigan*

**Administrative Code were not effective.** Our assessment disclosed one material condition:

- MCB did not consistently expend set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code* (Finding 4).

## **FINDING**

### **4. Set-Aside Fees**

MCB did not consistently expend set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*. As a result, we estimated that, from October 1, 2008 through July 31, 2011, MCB improperly expended \$254,000 (27.9%) of the \$910,000 in set-aside fees collected.

*Michigan Administrative Code* R 393.28 requires that each BEP operator pay a uniform set-aside fee based upon net proceeds. The *Code* allows MCB to use the set-aside fees only to maintain and replace equipment, purchase new equipment, establish and maintain retirement or pension funds and health insurance contributions, provide for paid sick leave and vacation time, and purchase management services. *Michigan Administrative Code* R 393.1(t) defines management services as inspections, quality control, consultation, accounting, regulating, and in-service training. The *Code* specifically excludes routine services or costs that pertain to the ongoing operation of an individual vending facility after the initial establishment period.

Our review of 57 statistically sampled expenditures funded with set-aside fees from October 1, 2008 through July 31, 2011 disclosed that MCB improperly expended funds totaling \$30,317. Of this amount, MCB expended \$20,278 to construct a beverage building, \$3,478 to reimburse BEP operators for food and beverage losses, \$2,407 to buy clothing for vending facility staff, \$1,630 to make a utility payment, and \$2,524 for other miscellaneous items. As a result, we estimate the total improper expenditures for the period October 1, 2008 through July 31, 2011 to be \$254,000.

## **RECOMMENDATION**

We recommend that MCB consistently expend set-aside fees collected from BEP operators in accordance with the *Michigan Administrative Code*.



## **AGENCY PRELIMINARY RESPONSE**

The Bureau agrees and informed us that it has complied. The Bureau stated that fiscal year 2010-11 expenditure transactions were reviewed and corrected and that steps were put in place in fiscal year 2011-12 to avoid a possible reoccurrence.

## **EFFORTS TO ENSURE PROPER ACCOUNTING FOR AND SAFEGUARDING OF EQUIPMENT INVENTORY**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded.

**Audit Conclusion:** We concluded that MCB's efforts to ensure that BEP's equipment inventory is properly accounted for and safeguarded were not effective. Our assessment disclosed two material conditions:

- MCB did not properly account for all equipment items at BEP vending facilities located throughout the State (Finding 5).
- MCB's contractor selection and contract monitoring processes were not sufficient to ensure that products and services were acquired at competitive prices and were in compliance with State purchasing policies and procedures (Finding 6).

### **FINDING**

#### **5. Equipment Inventory**

MCB did not properly account for all equipment items at BEP vending facilities located throughout the State. As a result, MCB could not ensure that State-owned equipment items were properly safeguarded, recorded, and maintained. Also, MCB's equipment inventory was overstated by approximately \$721,000 and the State's capital assets were understated by approximately \$98,000 as of August 2011.

*Michigan Administrative Code R 393.18(c) and R 393.19 require that MCB furnish each vending facility with equipment and that the titles to the equipment remain in*

the name of the State of Michigan. The State of Michigan Financial Management Guide (Part II, Chapter 21) requires LARA to tag all equipment and to maintain in its records the tag number, acquisition cost, location, purchase date, and description of all capital assets; to capitalize expenditures that increase the efficiency of a capital asset over and above that arising from repairs and maintenance; and to conduct annual physical counts of capital assets, which are equipment items with acquisition costs of \$5,000 or more, to ensure that the State's capital assets inventory is accurate and properly safeguarded.

Furthermore, BEP procedures require that BEP staff tag and enter into the equipment inventory records all equipment acquired at a cost of \$500 or more. MCB's equipment inventory records documented approximately 2,900 equipment items as of August 2011. Our review of MCB's equipment inventory records disclosed:

- a. MCB's equipment inventory did not consistently document the condition, location, purchase date, and description of the equipment items. We noted:
  - (1) MCB's equipment inventory records did not document the condition of approximately 980 (33.6%) equipment items. In addition, we observed that MCB updated the condition of equipment items in its inventory records based on the age of the equipment instead of confirming the actual condition of the equipment. As a result, MCB did not know the correct condition of equipment items and could not ensure that BEP operators properly maintained these equipment items.
  - (2) MCB equipment inventory records did not consistently provide a location or provide an accurate location for all equipment items. As a result, MCB could neither ascertain to which BEP site the equipment items were delivered nor verify whether the equipment items remained at BEP sites.

Our analysis of MCB equipment inventory records determined that MCB could not locate and, therefore, did not provide locations in its records for approximately 350 (12.0%) equipment items totaling \$714,000, of which \$265,000 were reported in the State's capital assets. Also, our verification of equipment inventory records for selected BEP sites

disclosed that 6 (14.3%) of 42 equipment items purchased in fiscal year 2010-11, totaling approximately \$30,000, were not located at the recorded BEP sites. We subsequently determined that at least 1 (16.7%) of the 6 equipment items was at a distributor's warehouse. In addition, as of May 2012, MCB had not updated its equipment inventory records to include all equipment transfers that occurred since March 2011.

Specific examples of shortcomings in MCB's equipment inventory records included:

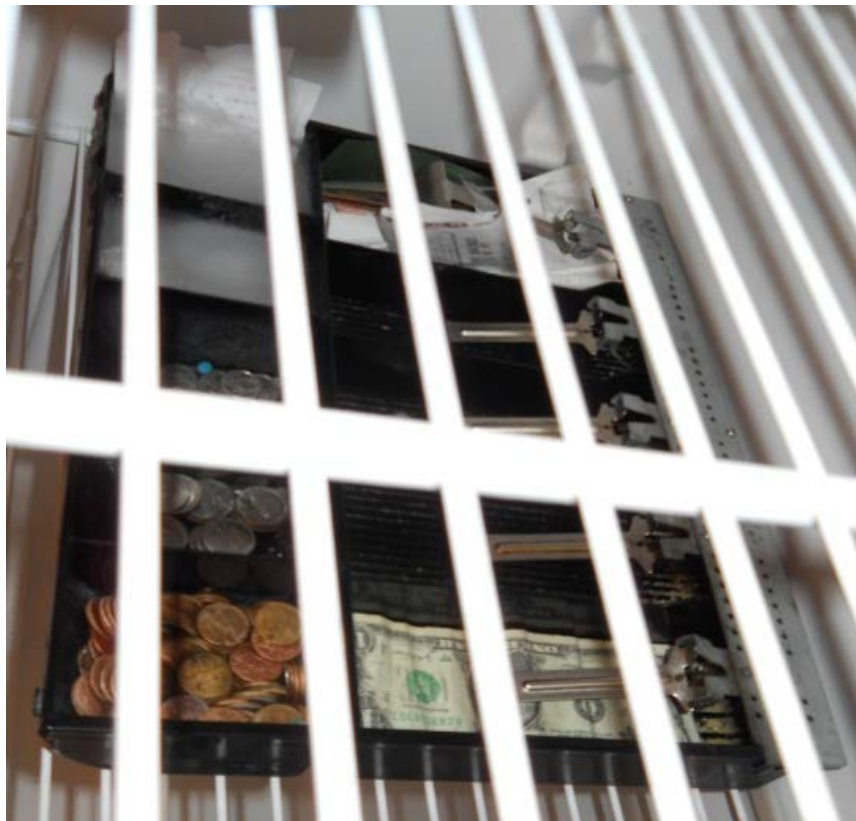
- Equipment was left at a closed BEP site and MCB had intended to abandon the equipment. The equipment included a walk-in freezer, a wash station, and a cash drawer within the freezer containing cash and receipts:



Source: Photograph provided by LARA.



Source: Photograph provided by LARA.



Source: Photograph provided by LARA.

- A vending machine was left at a rest area building scheduled for demolition. MCB failed to ensure that the vending machine was transferred to another BEP site or to storage prior to demolition.
- (3) MCB equipment inventory records did not document the purchase date for approximately 260 (9.0%) equipment items. As a result, MCB could not determine whether the equipment items were covered under warranty and, therefore, might have improperly paid for repairs.
  - (4) MCB equipment inventory records did not document the descriptions for approximately 570 (19.7%) equipment items. As a result, MCB could not effectively analyze equipment items by type of equipment, which is crucial for identifying stored equipment items that could be used to fulfill BEP operator equipment needs. In addition, proper descriptions would assist MCB in safeguarding equipment items.
  - (5) BEP staff did not consistently attach BEP equipment identification tags to equipment items purchased at a cost of \$500 or more. Our inspection of 36 judgmentally selected equipment items purchased in fiscal year 2010-11 disclosed that BEP did not tag 32 (88.9%) of the equipment items. Also, the tag number on 1 equipment item did not match the tag number in MCB's equipment inventory records. As a result, MCB could not properly identify all equipment items located at the BEP sites. These 33 equipment purchases totaled approximately \$153,000.
- b. MCB did not ensure that it installed bill recyclers\* in only State-owned vending machines and did not secure unused bill recyclers in storage. As a result, 4 (28.6%) of 14 bill recyclers purchased were installed in vending machines that were not State-owned and a BEP operator kept 1 additional bill recycler worth \$600 as a spare.
  - c. MCB's equipment inventory did not include equipment items purchased from October 1, 2010 through August 31, 2011. As a result, MCB's equipment inventory was understated by approximately \$533,000 (6.4%) and the State's capital assets were understated by an estimated \$361,000 for fiscal year 2010-11.

\* See glossary at end of report for definition.

- d. MCB did not correctly record the cost of all equipment items. As a result, MCB overstated its equipment inventory by \$542,000 (6.5%), \$6.0 million (44.1%), and \$6.5 million (44.7%) as of August 31, 2011, September 30, 2010, and September 30, 2009, respectively. These overstatements occurred because MCB erred when entering the cost of equipment, thereby materially misstating three equipment items, and did not account for discounts taken on its equipment purchases.
- e. MCB did not capitalize purchased products that increased the efficiency of equipment items. As a result, MCB's equipment inventory and the State's capital assets were understated by at least \$1,800 as of August 2011 and by all additional \$3,600 as of April 2012, for a total understatement of \$5,400 as of April 2012.
- f. MCB neither conducted annual physical counts of equipment nor submitted required annual equipment inventory reports to LARA during fiscal years 2008-09 and 2009-10. Although MCB submitted an annual equipment inventory report to LARA for fiscal year 2010-11, MCB did not conduct an annual physical count of equipment to ensure that the equipment inventory report submitted to LARA was accurate. As a result, the State's financial reporting of capital assets was likely misstated.

### **RECOMMENDATION**

We recommend that MCB properly account for all equipment items at BEP vending facilities located throughout the State.

### **AGENCY PRELIMINARY RESPONSE**

The Bureau agrees and informed us that it has taken or will be taking the following steps to rectify the deficiencies:

- The equipment inventory has been updated using procurement records to reflect equipment acquired beginning October 1, 2010 to date.
- The inventory has been updated to reflect any equipment transferred from its most recent location.

- The 4 bill recyclers installed in vending machines not owned by the State have been retrieved.
- Safeguards are being put into place to ensure the accuracy of stored inventory and inventory movement by working with warehouse personnel in conjunction with using an ad hoc database for equipment repairs. As a result, each time a licensee is inventoried into a BEP facility, the equipment inventory is verified. Promotional agent staff are conducting the 2012 cycle of evaluations. While promotional agents are willing to include the inventory process in their evaluation process, the Bureau concludes that it may not be an optimum use of their time. BEP is exploring the effectiveness of contracting out the annual physical equipment inventory.
- The Bureau will be developing and implementing a new inventory software solution.

## **FINDING**

### **6. Contractor Selection and Monitoring**

MCB's contractor selection and contract monitoring processes were not sufficient to ensure that products and services were acquired at competitive prices and were in compliance with State purchasing policies and procedures. The use of sound business practices when awarding and monitoring publicly funded contracts helps to ensure that desired products and services are acquired at competitive prices and that the business community has a fair and equal opportunity to participate in publicly funded projects.

The Department of Technology, Management, and Budget (DTMB) Administrative Guide policy 0610 requires MCB to manage its contracts in a fiscally responsible manner and to ensure that vendors meet contractual obligations. Also, DTMB Administrative Guide procedure 0510.01 requires MCB to obtain competitive bids for products or services from \$2,501 to \$10,000.

Our review of MCB's contractor selection and contract monitoring processes disclosed the following deficiencies:

- a. MCB did not consistently obtain independent competitive bids and enter into contracts for all products or services. As a result, MCB could not ensure that the products and services provided were reasonable and did not have a basis for monitoring and enforcing vendor performance.

For example, our review of vendor bids to purchase 10 bill recyclers for vending machines disclosed that all four vendors that bid were affiliated with one another. Two of the four vendors operated a vending machine company together, and a third vendor worked for the vending machine company. All three of these vendors currently operate their own companies that sell vending machines, and one of the three vendors also performs vending machine repair work for one of the other vendors. Also, one of these vendors markets its business with the fourth vendor and, according to MCB, stores its vending machines at the fourth vendor's warehouse.

In addition, MCB had not obtained bids or entered into a contract with a vendor that had previously provided 4 bill recyclers.

- b. MCB did not ensure that its vending distributor provided the correct equipment items as specified in its contract. As a result, MCB was not able to determine that the equipment items received were of commensurate value as those delineated in the contract with its vending distributor.

Specifically, of the 31 vending machines purchased in fiscal year 2010-11, 23 (74.2%) vending machines were not from the vending manufacturer specified in the contract. Also, we attempted to verify the vending manufacturer for 37 machines but could not locate 6 (16.2%) vending machines (see Finding 5, part a(2)).

- c. MCB paid a vendor for services that were already provided for in its vending distributor contract. As a result, MCB paid unnecessary charges for services and did not ensure that its vending distributor fulfilled the obligations of its contract.



For example, our review of invoices to support the delivery of 3 vending machines disclosed that a vending delivery company charged MCB an estimated \$735 for equipment installation and operator training services. However, these installation and training services were already included in the price as set by the vending distributor contract. In addition, we determined that the vending delivery company was affiliated with the vending distributor. The two companies market their vending businesses together, and MCB informed us that the vending distributor stores its vending machines in the vending delivery company's warehouse.

### **RECOMMENDATION**

We recommend that MCB improve its contractor selection and contract monitoring processes to ensure that products and services are acquired at competitive prices and are in compliance with State purchasing policies and procedures.

### **AGENCY PRELIMINARY RESPONSE**

Regarding part a. of this finding, the Bureau will implement new procedures to ensure that vending equipment parts and service are properly procured. The Bureau stated that it has begun advising promotional agents, operators, and the Elected Operators' Committee of this policy and will perform ongoing spot checks to monitor compliance.

Regarding part b. of this finding, the Bureau acknowledges that an oversight occurred and will work with LARA, who in turn will work with DTMB procurement to ensure that a contract change notice is issued when a manufacturer replaces a particular piece of equipment with an updated model or when specifications change. The Bureau stated that the current vending machine contract does not cover every potential vending need. According to the Bureau, occasionally customer service needs or physical constraints call for a vending machine not on the contract. The Bureau will work with LARA, who in turn will work with DTMB procurement, when these unique situations occur in order to procure suitable equipment within LARA's delegated authority.

Regarding part c. of this finding, the Bureau unequivocally acknowledges that it must be more diligent in this regard and, in the future, will maintain documentation to justify exceptional circumstances resulting in additional charges. The Bureau informed us that, for example, occasionally an operator may require additional,

more detailed vending machine training beyond that identified in the contract. The Bureau stated that, when these circumstances occur, the purveyor is compensated for the service. The Bureau also stated that, occasionally, even good faith efforts by the purveyor to effect the delivery of vending machines in accordance with the terms and conditions of both the contract and the specific purchase order yet, due to circumstances beyond the purveyor's control, the contractor is unable to complete the delivery.

## SUPPLEMENTAL INFORMATION

## **Excerpts From Executive Order No. 2012-10**

### **Executive Reorganization**

#### **I. BUREAU OF SERVICES FOR BLIND PERSONS**

A. The Bureau of Services for Blind Persons is created as a Type II Agency within the Department of Licensing and Regulatory Affairs. The Department of Licensing and Regulatory Affairs shall serve as a Designated State Agency under the Rehabilitation Act of 1973, as amended, 29 USC 701 *et seq.* The Bureau of Services for Blind Persons shall serve as the State Licensing Agency under the Randolph-Sheppard vending facilities for blind in federal buildings act, 20 U.S.C. 107 to 107f.

B. All authority, powers, duties, functions, records, personnel, property, unexpended balances of appropriations, allocations or other funds of the Commission for the Blind are transferred from the Commission for the Blind to the Bureau of Services for Blind Persons, including but not limited to the following:

1. The Blind and Visually Disabled Persons Act, 1978 PA 260, MCL 393.351 to 393.369.
2. Section 7a of the Michigan Historical Commission Act, 1913 PA 271, MCL 399.1 to 399.10.
3. Section 2 of the Limited Access Highways Act, 1941 PA 205, MCL 252.51 to 252.64.
4. Section 208 of the Michigan Museum Act, 1990 PA 325, MCL 399.301 to MCL 399.510.
5. Section 4 of the Business Opportunity Act for Persons with Disabilities, 1988 PA 112, MCL 450.791 to MCL 450.795.

C. Any authority, powers, duties, functions, records, property, unexpended balances of appropriations, allocations or other funds, including the functions of budgeting and procurement of the Director of the Commission for the Blind are transferred to the Director of the Department of Licensing and Regulatory Affairs.

*This exhibit continued on next page.*

D. Any authority, powers, duties, functions, records, property, unexpended balances of appropriations, allocations or other funds of the Commission for the Blind granted by 1999 AC, R 393.16(f), 393.34 and 393.56 are transferred to the Director of the Department of Licensing and Regulatory Affairs.

E. Any authority, powers, duties and functions relative to final agency decisions for cases arising under the Randolph-Sheppard Act, 20 U.S.C. 107 to 107f, the Rehabilitation Act of 1973, Public law 93-112, as amended, 29 U.S.C. 732, and the Blind and Visually Disabled Persons Act, 1978 PA 260, MCL 393.351 to MCL 393.369, are transferred from the Commission for the Blind to the Director of the Department of Licensing and Regulatory Affairs.

## **II. COMMISSION FOR BLIND PERSONS**

A. The Commission for Blind Persons ("Commission") is created as an advisory commission within the Department of Licensing and Regulatory Affairs.

B. The Commission shall consist of seven members appointed by, and serving at the pleasure of, the Governor. Four of the members shall be blind persons.

C. The Commission members shall have a particular interest or expertise in the concerns of the blind community.

D. The Governor shall designate a member of the Commission to serve as its Chairperson. The Chairperson shall serve at the pleasure of the Governor.

E. The Director of the Department of Licensing and Regulatory Affairs shall perform all budgeting, procurement, and related management functions of the Commission.

F. The Commission shall do the following:

1. Study and review the needs of the blind community in this state.
2. Advise the Department of Licensing and Regulatory Affairs concerning the coordination and administration of state programs serving the blind community.

*This exhibit continued on next page.*

3. Recommend changes in state programs, statutes, and policies that affect the blind community to the Department of Licensing and Regulatory Affairs.
4. Secure appropriate recognition of the accomplishments and contributions of blind residents of this state.
5. Monitor, evaluate, investigate, and advocate programs for the betterment of blind residents of this state.
6. Advise the Governor and the Director of the Department of Licensing and Regulatory Affairs, of the nature, magnitude, and priorities of the challenges of blind persons in this state.
7. Advise the Governor and the Director of the Department of Licensing and Regulatory Affairs on this state's policies concerning blind individuals.

## **IX. ABOLISHED ENTITIES**

A. The Michigan Rehabilitation Council, created by Executive Order 2007-48, is abolished, and Executive Order 2007-48 is rescinded.

B. The Commission for the Blind, created by MCL 393.352, and the Commission Board, created by 1999 AC, R 391.1 *et seq.*, are abolished.

C. The position of Director of the Commission for the Blind created by MCL 393.352(1) is abolished.

D. The Disability Concerns Commission, created by Executive Order 2009-40, is abolished.

## **X. MISCELLANEOUS**

A. All rules, orders, contracts, plans, and agreements relating to the functions transferred to the Department of Human Services by this Order lawfully adopted prior to the effective date of this Order by the responsible state agency shall continue to be effective until revised, amended, or rescinded.

*This exhibit continued on next page.*

B. Any suit, action, or other proceeding lawfully commenced by, against, or before any entity transferred to the Department of Human Services or the Department of Licensing and Regulatory Affairs by this Order shall not abate by reason of the taking effect of this Order. Any lawfully commenced suit, action, or other proceeding may be maintained by, against, or before the appropriate successor of any entity affected by this Order.

C. The invalidity of any portion of this Order shall not affect the validity of the remainder of the Order, which may be given effect without any invalid portion. Any portion of this Order found invalid by a court or other entity with proper jurisdiction shall be severable from the remaining portions of this Order.

In fulfillment of the requirements of Section 2 of Article V of the Michigan Constitution of 1963, the Sections VIII and IX D. of this Order shall be effective 60 days after the filing of this Order and the remaining provisions of this Order shall be effective on October 1, 2012.



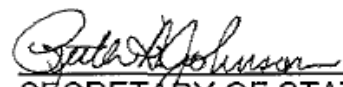
Given under my hand and the Great Seal of the state of Michigan this 27th day of June, in the Year of our Lord Two Thousand Twelve.

  
RICHARD D. SNYDER  
GOVERNOR

BY THE GOVERNOR:

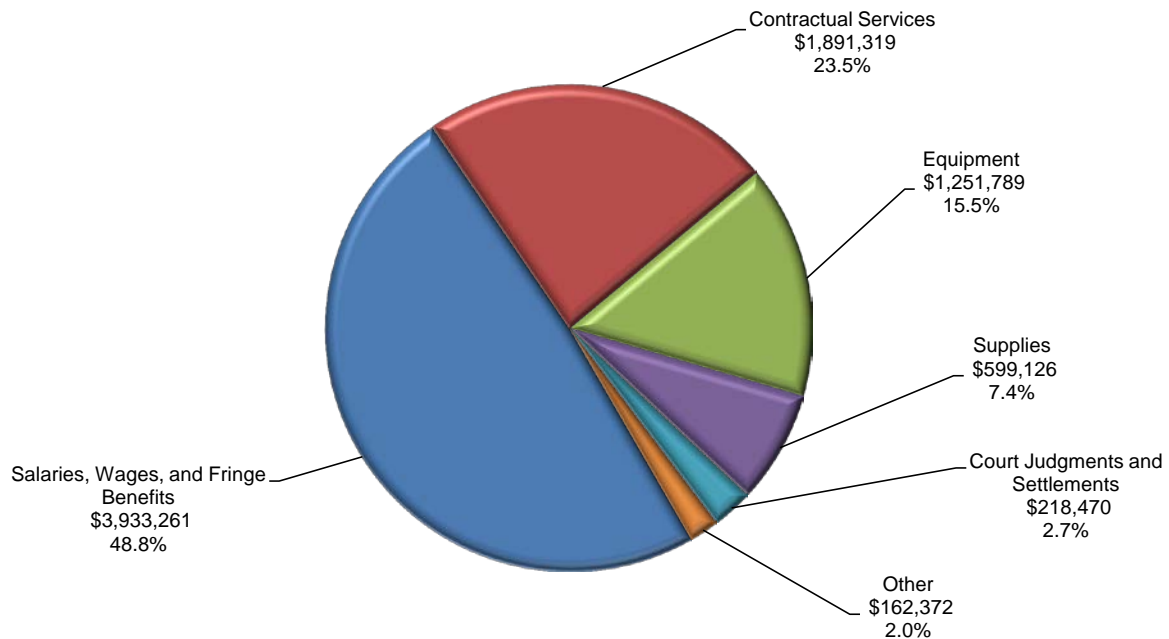
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ON 6/27/12 AT 3:55pm

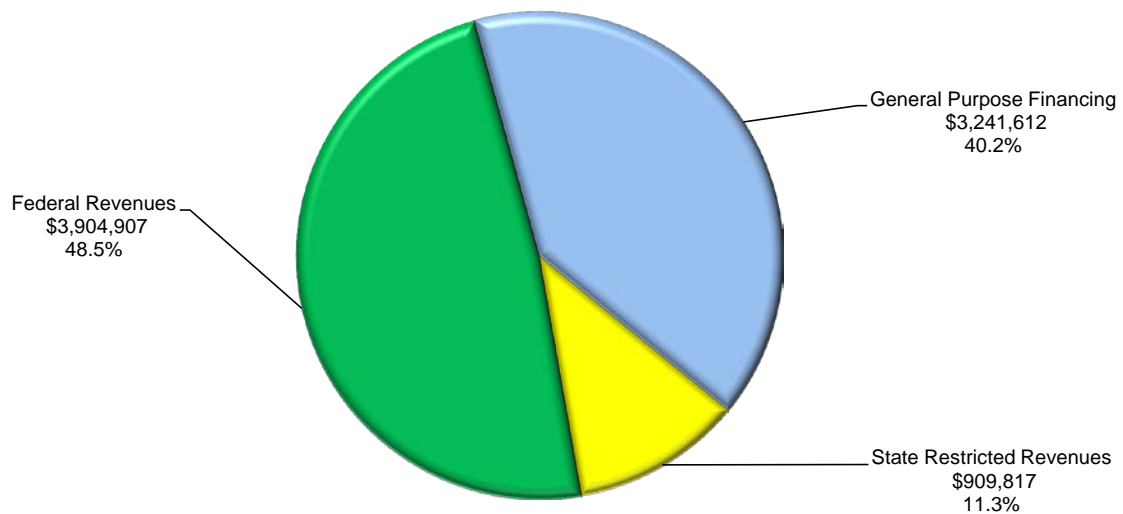
  
SECRETARY OF STATE

BUSINESS ENTERPRISE PROGRAM (BEP)  
Bureau of Services for Blind Persons  
Department of Licensing and Regulatory Affairs  
BEP Expenditures  
October 1, 2008 through August 31, 2011

Total BEP Expenditures by Expenditure Type  
\$8,056,337

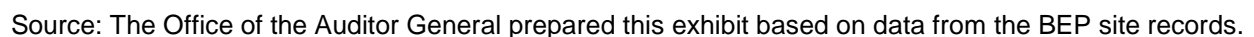


Total BEP Expenditures by Source of Funding  
\$8,056,337



Source: The Office of the Auditor General prepared this exhibit based on data from the Michigan Administrative Information Network (MAIN) accounting records.





# GLOSSARY

## Glossary of Acronyms and Terms

BEP	Business Enterprise Program.
bill recycler	A mechanism installed on a vending machine that allows the consumer to use bills between \$1 and \$20 and receive bills rather than coins as change.
blind person	A person whose central visual acuity does not exceed 20/200 in the better eye with correcting lenses or whose visual acuity, if better than 20/200, is accompanied by a limit to the field of vision in the better eye to such a degree that its widest diameter subtends an angle of no greater than twenty degrees. In determining whether an individual is blind, there shall be an examination by a physician skilled in diseases of the eye or by an optometrist, whichever the individual shall select.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

IT	information technology.
LARA	Department of Licensing and Regulatory Affairs.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MCB	Michigan Commission for the Blind.
Michigan Administrative Information Network (MAIN)	The State's automated administrative management system that supports accounting, purchasing, and other financial management activities.
operator	A blind person whom MCB licenses to operate an assigned vending facility.
ORS	Office of Retirement Services.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
promotional agent	MCB employees who are representatives to the vending facility operators and fulfill the supervisory role in BEP and perform the duties described in <i>Michigan Administrative Code</i> R 393.21.

reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
set-aside fee	A uniform fee based upon net proceeds paid by each vending facility licensee to MCB that is credited to the vending facilities' set-aside for the purposes described in <i>Michigan Administrative Code</i> R 393.28.
site	The specific, physical location for each automatic vending machine, cafeteria, snack bar, cart service, catering, coffee service, shelter, counter, or any other appropriate auxiliary service or equipment as MCB may prescribe by rule as being necessary for the sale of articles or services and which may be operated by a blind licensee.
vending facility	A group of one or more sites run by the same operator.
VFR	vending facility report.





