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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
FINANCE AND ADMINISTRATIVE SERVICES
ALLAN R. POHL
DIRECTOR

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DIRECTOR

March 19, 2013

emailed 3/19/13 (ael)

Mr. Doug Ringler, Director
Office of Internal Audit Services
State Budget Office
Romney Building – Seventh Floor
111 S. Capitol, P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Ringler:

We are enclosing our response to comments made in the Office of the Auditor General's Performance Audit of the Business Enterprise Program, Bureau for Services for Blind Persons, Department of Licensing and Regulatory Affairs for the period October 1, 2008 through August 31, 2011.

If you have any questions regarding this report, please feel free to call me at (517) 335-9247.

Sincerely,

(SIGNED)

Allen Williams, Director
Office of Audit & Financial Compliance

Enclosure

cc: Distribution List
Ed Rodgers
Allan Pohl
Mike Zimmer
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Connie Zanger

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AUDIT RESPONSE SUMMARY

Performance Audit of the Business Enterprise Program Bureau for Services for Blind Persons Department of Licensing and Regulatory Affairs (October 1, 2008 through August 31, 2011)

I. Citations complied with:

- 2.
- 3a, c, d & e.
- 4.
- 5.
- 6.

II. Citations to be complied with:

1. Estimated date of completion is September 30, 2013.

III. Citations agency disagrees with:

- 3b.

Audit Response
Bureau of Services for Blind Persons (BSBP) - Business Enterprise Program
Department of Licensing and Regulatory Affairs

FINDING #1 – Operators’ Monthly Reports

MCB did not effectively validate BEP operators’ monthly Vendor Facility Reports (VFRs). As a result, LARA could not ensure that it properly calculated and paid operator retirement contributions, the Office of Retirement Services 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.

Final Response: LARA is in the process of implementing corrective action.

In October 2012, BSBP submitted a request to the Elected Operators’ Committee (EOC) to identify a mutually beneficial methodology to review fiscal data reported to BSBP by its licensees. BSBP hopes to schedule this meeting shortly.

BSBP still plans to seek technical assistance from the Rehabilitation Services Administration (RSA) and Technical Assistance and Continuing Education (TACE); and continues to consult with the Attorney General regarding restrictions resulting from the Bureau’s relationship with its licensees and current promulgated rules. Based upon guidance received December 12, 2012, new program rules are in the draft process.

The estimated date for full compliance is September 30, 2013.

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.

Final Response: LARA has complied.

Effective January 3, 2013, BSBP implemented on-site visit improvement strategies and adopted 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.

Specific deficiencies noted were:

- a. MCB's promotional agents failed to adequately document the results of facility and site visits in the IT system.*
- b. MCB did not collect and record in its IT system BEP operator financial activity reports by individual site.*
- c. MCB did not distinguish operator complaints from site visits on the IT system.*
- d. MCB's IT system contained incomplete and inaccurate data such as numerous unassigned sites and facilities and duplicate records.*
- e. MCB's IT system did not consistently calculate the correct amount of operator income.*
- f. MCB failed to record all equipment purchases and relevant inventory information on its IT system.*

Final Response: LARA has complied (in part) by implementing the following corrective actions.

- a. Each month, immediately prior to staff meetings, the assistant program manager reviews the promotional agent's site visit status for each operator. Agents found to be in non-compliance are instructed to bring their site visit records up to date and/or improve the adequacy of their documentation.
- b. LARA disagrees with this portion of the finding. Each BEP operator manages only 1 "facility" and is required to submit a Vendor Facility Monthly Report (VFMR) for his/her facility by the 15th of each month. Facilities are often comprised of multiple sites (i.e. vending routes). Operators are not presently required to submit a VFMR for each site which comprises the facility. Such an activity would mean that operators would submit well over 300 reports each month. The current database does not have the capacity to accommodate multiple reports for each facility. In addition, the set-aside fee billing component of the database would have to be modified and the Program does not have staff to support such an expanded reporting.
- c. Site visit and case note forms were amended for implementation into the database. The new forms and database flag complaints (distinguishing them from other contacts) and include tracking functions to monitor resolution progress.
- d. All duplicates and inaccuracies have been corrected and the system is currently up to date.
- e. BSBP has worked with data system developers to resolve the errors cited and prevent future reoccurrences.

- f. BSBP completed an in-house physical inventory on December 31, 2012 and will continue to maintain accurate equipment records on its IT system. BSBP is no longer exploring the option of procuring a contractor to conduct the annual physical equipment inventory.

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.

Final Response: LARA has complied.

All fiscal year 2010 expenditure transactions were reviewed and corrected. Safeguards have been implemented to avoid future reoccurrences.

FINDING #5 – Equipment Inventory

MCB did not properly account for all equipment items at BEP vending facilities located throughout the State. As a result, BCB 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.

Final Response: LARA has complied.

BSBP has made, and continues to make, staff and process changes required to fully respond to audit findings and remains committed to doing a more thorough job detailing the equipment inventory and keeping the database current. These improvements are being accomplished using existing resources. Thus, a new equipment inventory software solution is not under development.

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.

Specific deficiencies noted included the following:

- a. *MCB did not consistently obtain independent competitive bids and enter into contracts for all products and services.*
- b. *MCB did not ensure that its vending distributor provided the correct equipment items as specified in its contract.*

c. *MCB paid a vendor for services already provided for in its vending distributor contract.*

Final Response: LARA has complied by implementing the following corrective actions.

- a. BSBP has implemented new procedures to ensure that vending equipment parts and service are properly procured.
- b. BSBP continues to work with LARA Finance and Administrative Services who in turn works with DTMB procurement to ensure that contract change notices are issued whenever manufacturers replace a particular piece of equipment with an updated model or when specifications change.
- c. BSBP practices more diligence before authorizing payments for vendor services and maintains documentation to justify exceptional circumstances resulting in additional charges.