

Office of the Auditor General  
Performance Audit Report

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

February 2017

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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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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Bureau of Services for Blind Persons (BSBP)*

### *Department of Licensing and Regulatory Affairs*

**Report Number:**  
641-0230-16

**Released:**  
February 2017

BSBP is responsible for implementing programs to provide opportunities to individuals who are blind or visually impaired to achieve employment and/or achieve maximum meaningful independence in life through comprehensive rehabilitative services. BSBP, which annually assists more than 14,000 blind and visually impaired individuals, incurred expenditures totaling \$24.6 million for fiscal year 2015.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of BSBP's efforts to provide services to eligible clients.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Case file documentation was missing or not prepared in a timely manner; therefore, it did not support clients' eligibility and agreement with services provided totaling \$680,000 and may have delayed clients' access to necessary services ( <a href="#">Finding #1</a> ).	X		Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of BSBP's efforts to monitor and assist Business Enterprise Program (BEP) operators in running profitable and well-managed vending facilities.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Better monitoring of BEP vending facility operations could improve business management and help maximize service delivery and profitability. BSBP conducted 37.7% of site visits late, did not properly document 97.6% of site visits, and did not monitor equipment repair status and operator complaints ( <a href="#">Finding #2</a> ).	X		Agrees

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of BSBP's efforts to ensure that BEP equipment inventory is properly accounted for and safeguarded.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
BSBP should continue to correct its BEP vending facility inventory records to ensure that all relevant information is documented, including purchase price, purchase date, description, and condition ( <u>Finding #3</u> ).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the sufficiency of BSBP's oversight of BEP operators' financial reporting.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable	Not applicable	Not applicable

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

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**Doug A. Ringler, CPA, CIA**  
Auditor General

February 10, 2017

Mr. William Robinson, Director  
Bureau of Services for Blind Persons  
Victor Center  
Lansing, Michigan  
and  
Ms. Shelly Edgerton, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan

Dear Mr. Robinson and Ms. Edgerton:

I am pleased to provide this performance audit report on the Bureau of Services for Blind Persons, Department of Licensing and Regulatory Affairs.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above 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,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### BUREAU OF SERVICES FOR BLIND PERSONS

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Providing Services to Eligible Clients	8
Findings:	
1. Case file documentation needs improvement.	10
Monitoring and Assisting Business Enterprise Program (BEP) Operators	13
Findings:	
2. Monitoring of BEP vending facilities needs improvement.	14
Equipment Inventory	17
Findings:	
3. Improvements needed over BEP equipment inventory.	18
Oversight of BEP Operators' Financial Reporting	19
Agency Description	20
Audit Scope, Methodology, and Other Information	22
Glossary of Abbreviations and Terms	27



# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

## PROVIDING SERVICES TO ELIGIBLE CLIENTS

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### BACKGROUND

The Bureau of Services for Blind Persons (BSBP) provides Vocational Rehabilitation (VR), Independent Living Part B (IL Part B), and Independent Living Older Blind (ILOB) services to eligible clients. To be eligible, a client must have a visual impairment as defined by Public Act 260 of 1978 and that constitutes or results in a substantial impediment to obtaining employment opportunities and/or living independently.

VR is designed to help clients obtain employment in a career that fits their current or potential skills and abilities. Services provided include diagnostic evaluations, vocational counseling and training, assistance in obtaining a college education, and job development and placement. BSBP procedures require VR counselors to determine eligibility within 60 days of receiving an application, develop an individual plan for employment (IPE) within 90 days of the eligibility determination, and document the client's success once the client has completed his or her IPE goals and has maintained employment for at least 90 days. For VR clients who receive social security disability insurance or supplemental security income benefits and maintain employment for nine continuous months of earnings at or above the federal substantial gainful activity level, the Social Security Administration will reimburse BSBP for the VR services provided.

The goal of IL Part B and ILOB is to assist clients in developing the skills that will allow them to remain in their home and community. Services provided include training for orientation and mobility, low-vision services, adaptive aids, daily living skills, leisure activities, counseling, and braille and other communication methods. IL Part B provides services to individuals who are under the age of 55 and for whom employment is not possible because of multiple severe impairments. ILOB provides services to clients who are 55 years of age or older and whose severe visual impairment makes competitive employment extremely difficult but for whom independent living goals are more feasible. BSBP procedures require IL Part B and ILOB teachers to determine eligibility, develop an IL Part B plan, and document the IL Part B client's success once the client has completed his or her IL Part B plan goals.

BSBP provided VR, IL Part B, and ILOB services to approximately 3,900 clients from October 1, 2013 through June 30, 2016.

**AUDIT OBJECTIVE**

To assess the effectiveness\* of BSBP's efforts to provide services to eligible clients.

**CONCLUSION**

Moderately effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- BSBP properly monitored clients' progress toward and achievement of their established goals for the VR and IL Part B cases reviewed.
- BSBP participated in various outreach efforts, including virtual networking, informational brochures, training sessions, speaking engagements, and collaboration with medical and educational organizations.
- BSBP pursued and monitored supplemental security income reimbursements for the applicable successfully closed cases reviewed.
- Material condition\* related to the need to improve case file documentation.

*\*See glossary at end of report for definition.*

## FINDING #1

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### Case file documentation needs improvement.

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BSBP did not prepare all required case file documentation. Payments made to or on behalf of the clients we reviewed with missing documentation totaled \$680,000 during our audit period.

Our review of 46 VR, 6 IL Part B, and 13 ILOB client case files noted:

- a. BSBP did not obtain an eye examination report to support the eligibility determinations for 3 (6.5%) VR clients and 2 (33.3%) IL Part B clients.

Title 34, Part 361, section 47(a)(1) of the *Code of Federal Regulations*\* (CFR) and federal regulation 34 CFR 364.51(a)(1) require documentation supporting eligibility. Also, BSBP's Eye Examination Report policy and its Assessment for Determining Eligibility policy require obtaining an eye examination report to determine eligibility.

Payments made on behalf of these clients during October 2013 through June 2016 totaled \$17,336 and \$175, respectively.

- b. BSBP did not obtain the VR client's signature on 11 (23.9%) of the 46 IPEs and on one or more of the IPE amendments for 29 (65.9%) of the 44 VR clients who had IPE amendments.

Federal regulations 34 CFR 361.45(d)(3) and 34 CFR 361.45(d)(7) require IPE and IPE amendments signed by the client to help ensure that the client understands and agrees with the plan.

Payments made on behalf of these individuals during October 2013 through June 2016 totaled \$602,385 (including \$303,930 for college-related services noted in part c).

- c. BSBP did not obtain all of the documentation required by BSBP's College policy for college-related services provided to 16 (84.2%) of the applicable 19 VR clients: 10 files did not include a college acceptance letter, 14 files did not include a college curriculum, and 8 files did not include a federal financial aid application. The required documentation helps prove that the client is enrolled and has pursued other funding resources.

College-related payments, typically consisting of tuition, books, and housing, made on behalf of these individuals during October 2013 through June 2016 totaled \$365,012.

\*See glossary at end of report for definition.

- d. BSBP did not complete an IL Part B plan for 2 (33.3%) of the 6 IL Part B clients and did not obtain the client's signature on the other 4 (66.7%) IL Part B plans and on the 1 IL Part B plan amendment.

BSBP indicated that an IL Part B plan should be developed within 90 days of the client's application date. Also, federal regulation 34 *CFR* 364.52(b)(2) requires an IL Part B plan signed by the client and the IL Part B staff member. Missing signatures do not allow BSBP to determine the client's agreement with or timely completion of the IL Part B plan.

Payments made on behalf of these individuals during October 2013 through June 2016 totaled \$3,103.

- e. BSBP did not complete 5 (10.9%) VR client eligibility determinations within 60 days, ranging from 103 to 452 days late.

Federal regulation 34 *CFR* 361.41(b)(1) requires a VR eligibility determination to be made within 60 days of the client's application.

Untimely eligibility determinations may have delayed clients' access to necessary services.

- f. BSBP did not develop 3 (6.5%) VR client IPEs within 90 days, ranging from 121 to 142 days late.

BSBP's Timely Services policy requires counselors/teachers to develop an IPE within 90 days of the client eligibility determination date.

Untimely development of IPEs may have delayed clients' access to necessary services.

BSBP indicated that its staff likely need case file documentation training.

## **RECOMMENDATION**

We recommend that BSBP appropriately prepare and maintain all case file documentation to support services provided to VR, IL Part B, and ILOB clients.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Department of Licensing and Regulatory Affairs (LARA) provided us with the following response:

*We agree with this recommendation and will take the following action steps:*

- *Any active files identified in the audit with incomplete documentation will be corrected by May 31, 2017. BSBP will continue internal case file reviews.*
- *BSBP Director to issue, by February 6, 2017, a directive to all BSBP staff to adhere to the eligibility procedure [BSBP-19 issued 4/15/2016].*
- *The Lean Process Improvement Project is currently addressing case file management procedures at the source and ongoing training is provided at monthly teacher/counselor meetings.*

*LARA notes that all individuals were ultimately determined eligible for services and that no services were withheld or denied as a result of the lack of timeliness in documenting the eligibility determinations.*

# MONITORING AND ASSISTING BUSINESS ENTERPRISE PROGRAM (BEP) OPERATORS

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## BACKGROUND

BSBP is the State licensing agency for blind persons\* operating vending facilities\* in State and federal buildings and highway rest stops and visitor centers. BSBP's BEP provides training to VR clients to become BEP operators\*, affording them with employment opportunities and self-support through the operation of vending facilities and with equipment and initial inventory for the BEP facilities. As of June 30, 2016, 63 BEP operators managed 63 facilities across 282 sites\*.

BEP promotional agents\* conduct site visits to evaluate the BEP facilities' cleanliness, the sufficiency of the level of inventory offered, and the operators' compliance with BSBP rules and policies. BSBP completed 1,582 site visits from October 1, 2013 through May 24, 2016.

BEP operator set-aside fees\* (fees based upon the net proceeds of each vending facility) are used by BSBP to fund maintenance and purchases of equipment and provide management services\*. BSBP monitors the equipment needs of each vending facility, ensuring that the equipment is in good working order and replacing worn-out or obsolete equipment to help ensure the successful operation of the facilities.

## AUDIT OBJECTIVE

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

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- BSBP expenditures reviewed, that were funded by BEP set-aside fees, materially complied with the administrative rules.
- Material condition related to the need for improved monitoring of and assistance provided to BEP operators.

*\*See glossary at end of report for definition.*

**FINDING #2**

**Improvements needed to better monitor and help maximize BEP vending facility operations.**

BSBP did not fully monitor BEP vending facility operations, which limited BSBP's ability to assist BEP operators in improving business management and maximizing service delivery and profitability.

*Michigan Administrative Code R 393.21* requires promotional agents to visit each vending facility every 6 weeks, or more often as necessary, to offer suggestions and assist the BEP operator with equipment or service concerns; to monitor the BEP operator's compliance with the BSBP rules and policies; and to complete a field activity report after every visit. Also, BSBP informed us that it instructed its promotional agents to complete all elements of the site visit form to document their site visit results. In addition, *Michigan Administrative Code R 393.18 (c)* and (d) state that BSBP's responsibilities include furnishing each facility with adequate equipment suitable to its needs and maintaining all equipment in good repair to ensure the successful operation of the facility.

Our review of BSBP procedures to assist BEP operators noted:

Site visits ranged from 0.1 to 35.0 weeks late and averaged 4.3 weeks late.

- a. BSBP promotional agents did not conduct 161 (37.7%) of the 427 site visits to the BEP operators' vending facilities in a timely manner. Our review of BSBP's site visit documentation for 20 randomly selected BEP operators noted:

Weeks Late	Number of Site Visits			Total
	Fiscal Year			
	2014	2015	2016*	
0.1 - 1.0	10	22	12	44
1.1 - 2.0	5	8	4	17
2.1 - 5.0	23	21	9	53
5.1 - 10.0	12	11	7	30
More than 10.0	6	3	8	17
<b>Total late visits</b>	<b>56</b>	<b>65</b>	<b>40</b>	<b>161</b>
<b>Total site visits</b>	<b>110</b>	<b>184</b>	<b>133</b>	<b>427</b>
<b>Percent of total site visits late</b>	<b>50.9%</b>	<b>35.3%</b>	<b>30.1%</b>	<b>37.7%</b>

\*October 1, 2015 through June 30, 2016.

97.6% of site visit forms not complete.

- b. BSBP promotional agents did not document one or two of the five elements for 41 (97.6%) of 42 site visit forms, including 24 (57.1%) forms on which the compliance with rules and policies element was not documented and 8 (19.0%) forms on which the follow-up box was not checked, even though comments indicated that follow-up was necessary. We determined that no follow-up was subsequently documented for 6 (75.0%) of these 8 forms.

- c. BSBP did not monitor the status of BEP equipment repairs to ensure that all repairs were resolved in a timely manner. BSBP implemented a BEP equipment repair log and logged 373 repairs between October 1, 2015 and June 30, 2016. The BEP manual states that fully functioning equipment is critical to the continued success of the operation of the facility; therefore, we determined that 15 days would be reasonable to complete equipment repairs. As of June 30, 2016, BSBP completed 286 (76.7%) repairs within a range of 0 to 118 days and had 87 open repairs as follows:

Days	Open Repairs		Completed Repairs	
	Number	Percent	Number	Percent
0 - 15	8	9.2%	196	68.5%
16 - 30	8	9.2%	46	16.1%
31 - 60	11	12.6%	24	8.4%
61 - 90	14	16.1%	18	6.3%
Over 90	46	52.9%	2	0.7%
Total	87	100.0%	286	100.0%

BSBP indicated that it entered the invoice received dates rather than the actual repair completion dates and that it had not been notified that some of the open repairs had been completed or canceled.

- d. Although BSBP developed a central complaint log in fiscal year 2015, it did not log any complaints for fiscal years 2015 or 2016. Four of the 15 BEP operators surveyed indicated that they had filed complaints regarding their business operations with BSBP within these two years.

BSBP had developed monitoring tools but did not implement processes to ensure that the tools were utilized as intended.

We noted a similar situation in our November 2012 performance audit of the Business Enterprise Program. In response to that audit report, the agency stated that it agreed and would examine potential ways of maximizing service delivery, develop on-site visit improvement strategies, and adopt employee performance measures. Although we noted improvement since our prior audit, BSBP still needs to improve its monitoring of BEP vending operations.

## RECOMMENDATION

We again recommend that BSBP increase its efforts to monitor and assist BEP operators with their vending facility operations.

**AGENCY  
PRELIMINARY  
RESPONSE**

LARA provided us with the following response:

*We agree with the recommendation and the following action steps are already in progress or will occur within the next 30 days:*

- *A site visit checklist has been developed. BEP Manager and Assistant BEP Manager to audit site visits to ensure promotional agent compliance with procedures.*
- *A repair log is currently in place. A repair "email box" has been established to centralize operators' repair requests to ensure capture, logging, and follow-up.*
- *Vending machine leasing program is currently in a 5 year roll-out stage. Lessor is responsible for repairs on new leased machines. Single vendor management will be conducive to ensuring timely follow-up on repairs.*
- *A complaint log is now in place.*
- *BEP has implemented a "risk-based" audit process of the Vending Machine Monthly Report produced by the licensed operator.*

## EQUIPMENT INVENTORY

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### BACKGROUND

BSBP utilizes System 7, an electronic database, to track BEP equipment inventory, including the purchase price and date and the description, condition, and location of the equipment. Based on the purchase price identified in System 7, the total value of the BEP equipment inventory was \$8.1 million.

### AUDIT OBJECTIVE

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

### CONCLUSION

Effective.

### FACTORS IMPACTING CONCLUSION

- BSBP had implemented an inventory reconciliation process, had conducted an inventory, and was in the process of reconciling the discrepancies.
- BSBP recorded 100% of the 9 new equipment purchases reviewed in System 7.
- BSBP accurately recorded the location for 99.3% of the active equipment in System 7.
- BSBP properly bid the 2 equipment purchases reviewed in accordance with State purchasing policies.
- Reportable condition\* related to the need to improve BEP equipment inventory records.

\*See glossary at end of report for definition.

## **FINDING #3**

### **Improvements needed over BEP equipment inventory.**

BSBP should continue to correct its BEP vending facility equipment inventory records to ensure that the equipment is properly recorded and safeguarded and that the State's capital assets inventory is accurately reported.

*Michigan Administrative Code R 393.18(c) and (d) require that BSBP furnish each vending facility with State of Michigan owned equipment, maintain all vending facility equipment in good repair, and replace worn-out or obsolete equipment as required to ensure the continued successful operation of the facility. Also, the State of Michigan Financial Management Guide Part II, Chapter 21, Section 110 requires each department to maintain inventory records that document the purchase price, purchase date, and description of its capital assets. BSBP indicated that it utilizes the equipment condition indicator to determine when equipment needs to be replaced.*

Beginning December 1, 2015, BSBP implemented an inventory reconciliation process to verify the accuracy of the BEP equipment inventory records. We noted that BSBP had conducted an inventory and was in the process of reconciling the discrepancies and updating the equipment tags. However, our review of BSBP's inventory records for its 3,276 equipment items noted the following missing information:

- a. Purchase price for 507 (15.5%) items.
- b. Purchase date for 870 (26.6%) items.
- c. Description for 1,351 (41.2%) items.
- d. Condition of 495 (15.1%) items.

## **RECOMMENDATION**

We recommend that BSBP continue to correct its BEP vending facility equipment inventory records.

## **AGENCY PRELIMINARY RESPONSE**

LARA provided us with the following response:

*We agree with the recommendation and action steps include:*

- *Bar coded equipment tags have been placed on all vending facility equipment (VFE) - promoting accuracy and efficiency of periodic inventories.*
- *Implemented September 2016, 100% annual inventory of VFE at all sites by promotional agents and audit of 20% of annual inventories by BEP Manager and Assistant BEP Manager.*
- *Reconciliation of BEP VFE to LARA records.*

## OVERSIGHT OF BEP OPERATORS' FINANCIAL REPORTING

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### BACKGROUND

BSBP requires BEP operators to submit financial information on monthly vending facility reports (VFRs) in accordance with *Michigan Administrative Code R 393.27(2)*. The financial information is used as the basis for calculating BEP operator retirement contributions, pension benefit payments, and set-aside fees. As of October 1, 2015, BSBP implemented a process to audit BEP facilities to verify the accuracy of the financial information reported.

### AUDIT OBJECTIVE

To assess the sufficiency of BSBP's oversight of BEP operators' financial reporting.

### CONCLUSION

Sufficient.

### FACTORS IMPACTING CONCLUSION

- BSBP applied a risk-based approach for determining the frequency of VFR audits.
- BSBP conducted VFR audits on a quarterly or annual basis in accordance with the BEP operator's risk assessment score. BSBP documented that it conducted 101 audits for 55 BEP facilities during fiscal year 2016.
- 100% of the 12 VFRs reviewed correctly calculated net income and set-aside fees due.

## AGENCY DESCRIPTION

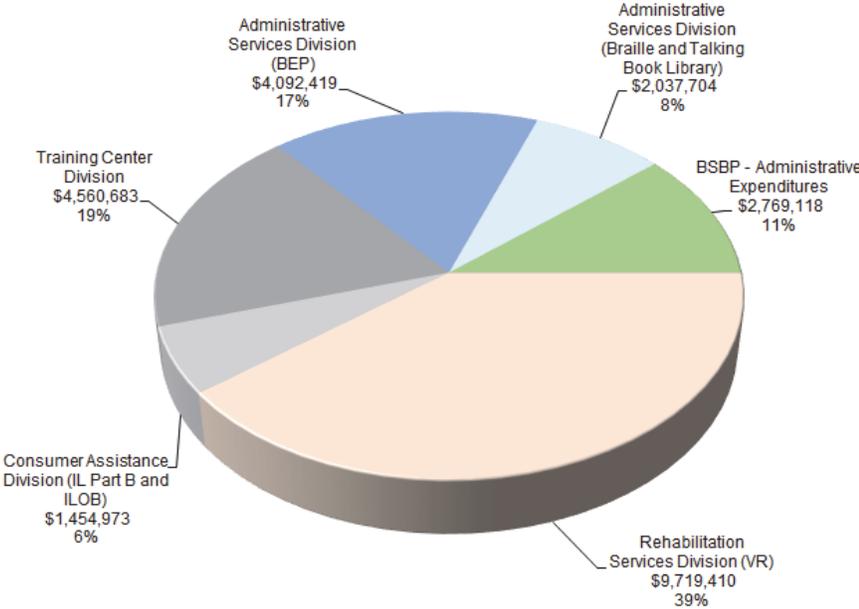
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BSBP's mission is to provide opportunities to individuals who are blind or visually impaired to achieve employment and/or achieve maximum meaningful independence in life through comprehensive rehabilitative services.

BSBP administers programs that offer vocational rehabilitation, independent living, and employment training services to the blind and visually impaired citizens in Michigan through the following divisions:

- The Consumer Assistance Division provides independent living services to IL Part B and ILOB clients.
- The Administrative Services Division administers BEP, as established by the federal Randolph-Sheppard Act and Public Act 260 of 1978; provides assistance to the BEP operators; and oversees the operations of the Braille and Talking Book Library.
- The Training Center Division provides employment and other individually tailored training services to VR, IL Part B, and/or ILOB clients.
- The Rehabilitation Services Division provides vocational rehabilitation and employment training services to VR clients.

BSBP assists more than 14,000 blind and visually impaired individuals annually to achieve employment and independence. BSBP expenditures totaled \$24.6 million for fiscal year 2015:



## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes related to BSBP's operations and activities. 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.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2013 through June 30, 2016.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of BSBP's operations and activities to establish our audit objectives and methodology. As part of our preliminary survey, we:

- Interviewed BSBP staff and analyzed applicable information to obtain an understanding of BSBP's organizational structure, operations, responsibilities, and activities.
- Reviewed BSBP policies and procedures and relevant federal laws.
- Reviewed the Braille and Talking Book Library annual survey and site visit processes.
- Interviewed selected BEP operators.
- Reviewed the Office of Internal Audit Services' follow-up report of prior BEP audit findings.
- Analyzed BEP equipment inventory data from BSBP's System 7.

*\*See glossary at end of report for definition.*

## **OBJECTIVE #1**

To assess the effectiveness of BSBP's efforts to provide services to eligible clients.

To accomplish this objective, we:

- Reviewed 46 VR, 6 IL Part B, and 13 ILOB client case files to determine if documentation was maintained to support the clients' eligibility, the timeliness of eligibility determinations, and the timeliness and development of IPE and IL Part B plans and if BSBP monitored the clients' progress toward achieving established goals.
- Reviewed 25 unsuccessfully closed VR case files to determine the reason for the unsuccessful closure and if BSBP made a reasonable effort to keep the cases open.

Our samples were randomly selected to eliminate any bias and to enable us to project the results into the entire population. However, because of the uniqueness of each client's service needs, we did not project a dollar error to the entire population.

## **OBJECTIVE #2**

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

To accomplish this objective, we:

- Reviewed 36 BSBP expenditure transactions funded with set-aside fees to determine if the funds were used for allowable purposes. Our sample was randomly and judgmentally selected. Therefore, we could not project the results to the overall population.
- Surveyed 20 BEP operators to identify their satisfaction and concerns with BSBP's efforts to assist them.
- Reviewed site visit documentation for 20 BEP operators to determine if BEP promotional agents conducted site visits of the operators' facilities at least every 6 weeks and sufficiently documented the results of the visits. Our sample was randomly selected to eliminate any bias and to enable us to project the results into the entire population.
- Reviewed the BEP equipment repair log to determine if BSBP monitored the status of equipment repairs to ensure that all repairs were resolved in a timely manner.
- Reviewed the BEP operator complaint logs to determine if BSBP documented and resolved complaints.

### **OBJECTIVE #3**

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

To accomplish this objective, we:

- Reviewed the equipment inventory records in BSBP's System 7.
- Reviewed 9 equipment purchases made from October 1, 2013 through April 30, 2016. Our sample was randomly selected to eliminate any bias and to enable us to project the results into the entire population.
- Reviewed BSBP inventory reports.
- Obtained an understanding of BSBP's process to procure BEP equipment and equipment repairs.
- Reviewed 2 judgmentally selected purchases for compliance with State purchasing policies. Therefore, we could not project the results to the overall population.

### **OBJECTIVE #4**

To assess the sufficiency of BSBP's oversight of BEP operators' financial reporting.

To accomplish this objective, we:

- Evaluated BSBP's risk-based approach to auditing VFRs.
- Reviewed 10 VFR audits completed by BSBP to determine if the audits were selected in accordance with BSBP's risk-based approach and completed in accordance with BSBP policy.
- Reviewed the wages recorded for the 5 operators who were members of the Michigan State Employees' Retirement System and who retired subsequent to July 31, 2011 to determine the reasonableness of the wages reported for the 3 years prior to retirement.
- Reviewed the net income and set-aside fee calculations for 12 VFRs.

Our samples were randomly selected to eliminate any bias and to enable us to project the results into the entire population.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State

government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY  
RESPONSES**

Our audit report contains 3 findings and 3 corresponding recommendations. LARA's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of 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 an audited agency to develop a plan to comply with the 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.

**PRIOR AUDIT  
FOLLOW-UP**

Following is the status of the reported findings from our November 2012 performance audit of the Business Enterprise Program, Bureau of Services for Blind Persons, Department of Licensing and Regulatory Affairs (641-0230-11):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Operators' Monthly Reports	Complied	Not applicable
2	Monitoring and Assisting of Operators	Repeated	2
3	Utilization of IT System	Rewritten	3
4	Set-Aside Fees	Complied	Not applicable
5	Equipment Inventory	Rewritten	3
6	Contractor Selection and Monitoring	Complied	Not applicable

Following is the status of the reported findings 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):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Client Tracking System - Lacked policies, procedures, and system edits.	No longer applicable.	
2	Social Security Reimbursement Process - Lacked effective procedures to identify eligible clients and costs.	Complied	Not applicable
2	Social Security Reimbursement Process - Failure to submit claims for federal reimbursement.	Complied	Not applicable
3	Procurement Card Purchases - Ineffective internal control*.	Not in scope of this audit.	
4	BEP Equipment Inventory Record - Noncompliance with procedures.	Rewritten	3
5	Client Equipment Inventory Record - Lacked monitoring procedures.	Complied	Not applicable
6	Purchased Services - Noncompliance with State requirements.	Complied	Not applicable
7	IL Program Case Management Procedures - Lacked policies and procedures.	Complied	Not applicable

\*See glossary at end of report for definition.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>BEP</b>	Business Enterprise Program.
<b>BEP operator</b>	A blind person whom BSBP licenses to operate an assigned vending facility.
<b>blind person</b>	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.
<b>BSBP</b>	Bureau of Services for Blind Persons.
<b><i>Code of Federal Regulations (CFR)</i></b>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
<b>effectiveness</b>	Success in achieving mission and goals.
<b>ILOB</b>	Independent Living Older Blind.
<b>IL Part B</b>	Independent Living Part B.
<b>internal control</b>	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 also 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.
<b>IPE</b>	Individual plan for employment.
<b>LARA</b>	Department of Licensing and Regulatory Affairs.

<b>management services</b>	Inspection, quality control, consultation, accounting, regulating, in-service training, and related services provided on a systematic basis to support and improve Randolph-Sheppard small business enterprises operated by blind individuals. Management services do not include routine services or costs that pertain to the ongoing operation of an individual facility after the initial establishment period.
<b>material condition</b>	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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.
<b>performance audit</b>	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.
<b>promotional agent</b>	BSBP employees who are representatives to the BEP operators and fulfill the supervisory role in BEP and perform the duties described in <i>Michigan Administrative Code R 393.21</i> .
<b>reportable condition</b>	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.
<b>set-aside fee</b>	A uniform fee, based upon the net proceeds of and paid by each vending facility licensee to BSBP, which is set aside for the purposes described in <i>Michigan Administrative Code R 393.28</i> .
<b>site</b>	The specific, physical location for each vending machine, cafeteria, snack bar, cart service, catering, coffee service, shelter, counter, or any other appropriate auxiliary service or equipment as BSBP may prescribe by rule as being necessary for the sale of articles or services and which may be operated by a blind licensee.
<b>vending facility</b>	A group of one or more sites run by the same operator. A vending

facility can include an automatic vending machine, cafeteria, snack bar, cart service, catering, coffee service, shelter, counter, or any other appropriate auxiliary service or equipment as BSBP may prescribe by rule as being necessary for the sale of articles or services and which may be operated by a blind licensee.

**VFE** vending facility equipment.

**VFR** vending facility report.

**VR** Vocational Rehabilitation.









