Office of Inspector General
DBS Business Enterprise Program

Report #A-1415-011 **May 2015**

Executive Summary

In accordance with the Department of Education's (department) fiscal year 2014-15 audit plan, the Office of Inspector General conducted an audit of the Division of Blind Services' (DBS) Business Enterprise Program. The purpose of this audit was to ensure DBS was effectively governing and monitoring the Business Enterprise Program. During this audit, we noted that, in general, DBS was effectively governing and monitoring the Business Enterprise Program. However, there were instances where improvements could be made to strengthen certain controls. For example, we cited instances where accounts with outstanding balances were not sent to collections in a timely manner and performance measures were not being met. The Audit Results section below provides details of the instances noted during our audit.

Scope, Objectives, and Methodology

The scope of this audit included the licensed operator facility agreements (LOFA) in place during the period of January 1, 2014, through December 31, 2014, and uncollected working capital. We established the following objectives for our audit:

1. Determine whether the licensed vendors are operating in compliance with agreement provisions;
2. Determine whether DBS is effectively managing and monitoring the vendors for compliance; and
3. Determine whether DBS has internal controls to effectively administer the Business Enterprise Program.

To accomplish our objectives we reviewed applicable laws, rules, and regulations; interviewed appropriate department staff; reviewed policies and procedures; reviewed program monitoring documentation; reviewed LOFAs and supporting documentation; and reviewed a sample of vendor files, payments, and related documentation.

Background

The Bureau of Business Enterprise (BBE) was established as a result of federal law under the Randolph-Sheppard Act and supported by state statute to provide employment opportunities for blind individuals in the food service and vending machine industries. Blind licensees, under the Little Randolph-Sheppard Act, are given the first opportunity to participate in the operation of vending stands on all Florida state properties acquired after July 1, 1979, when such facilities are operated under the supervision of the Florida Division of Blind Services.

BBE's mission is "to provide people who are legally blind with rewarding and profitable entrepreneurial ventures, broaden their economic opportunities, and invigorate all blind people to be self-supporting, while dispelling misconceptions about blind people by showcasing their abilities." The BBE administers one of the largest vending and food service programs operated by people who are legally blind in the United States. Job opportunities include snack bar, cafeteria, highway vending machines, and non-highway vending. For the period of January 1, 2014, through December 31, 2014, there were 146 facilities, including 1 training facility, operated by 121 licensed vendors.

BBE provides vendors with initial working capital, consisting of inventory, cash, and coin necessary for conducting business, for each facility operated. The working capital is an asset of the BBE. Inventory is taken when a vendor enters into a LOFA and then again when a vendor exits a LOFA. When leaving the facility, the exit inventory sometimes results in a working capital overage or shortage. If there is an overage, BBE pays the vendor the amount owed to them. If there is a shortage, the vendor is responsible to pay BBE the amount owed. If the vendor does not pay the balance, the account will be turned over to the Department of Financial Services (DFS) for collection. A vendor may elect to reduce his or her working capital obligation by paying it down or paying it in full while operating the facility.

Audit Results

Finding 1: DBS did not send accounts with outstanding balances to collections in a timely manner.

Article IV, section (D) (6) (ii) of the LOFA states, "Upon termination of this Agreement, the parties or their designated representatives shall conduct or cause to be conducted an exit inventory record of which shall be provided to the Licensee and Licensor. If the cost basis of the exit inventory is greater than the cost basis of the initial inventory, the Licensor shall forthwith submit to the Licensee a check in the amount of the difference. If the cost basis of the exit inventory is less than the cost basis of the initial inventory, the Licensee shall forthwith submit to the Licensor a check in the amount of the difference."

The procedures of the department comptroller state that each unit should attempt to collect for 90 days. The attempt can consist of letters, phone calls, or emails. If there is no resolution with the debtor, the debt collections request spreadsheet is updated and the encrypted file is uploaded to the collection agency's FTP site.

Section 17.20 (3)(a), Florida Statutes (F.S.), states, "No later than 120 days after the date on which the account or other claim was due and payable, unless another period is approved by the Chief Financial Officer, and after exhausting other lawful measures available to the agency, each agency shall report the delinquent accounts receivable as directed by the Chief Financial Officer to the appropriate collection agency for further action, excluding those agencies that collect delinquent accounts pursuant to independent statutory authority."

BBE must make attempts to collect the amount due prior to submitting it to the Chief Financial Officer at DFS. The process generally followed is to send three delinquent letters to the former vendor requesting payment. BBE has the authority to enter into a binding repayment plan with vendors to recover assets from non-receipt of working capital and set-aside levy shortages. BBE provides a repayment plan to the vendors along with the delinquent letter. The vendor may choose to sign the repayment plan or make payment in full. Noncompliance with the rate or amount agreed upon shall nullify the repayment agreement and any remaining balance shall immediately be considered due in full.

BBE provided documentation of former licensed vendors who owed monies to BBE dating back to 2002. As of December 2014, there were 92 former vendors with 128 terminated LOFAs who owed monies to the department. We reviewed the dates delinquent letters were sent to vendors with outstanding balances in order to determine if letters were sent in a timely manner. It was determined letters were not sent to those vendors with outstanding balances until 12/21/2010. The time between the LOFA expiration and the first letter ranged from 1 day to 110 months. The time between the first letter and follow-up letter ranged from 12 days to 8 months, and the time between the follow-up letter and the final letter ranged from 22 days to 15 months.

BBE's repayment plan database consisted of 11 vendors who were said to be on a repayment plan with BBE. Five of these vendors had not signed a repayment plan or made any payments toward their outstanding debt. The remaining six vendors made payments on their balances totaling $6,704.42 as of December 31, 2014. Only two of these six vendors had actually signed the repayment plan.

When vendors do not respond to BBE's attempts to collect monies owed, staff from BBE forwards the account information to the DBS fiscal office. The fiscal office then sends the collection request to Revenue Management within the department's comptroller office, where the collection requests are then reported directly to the collection agency with a copy of the list going to DFS. If monies are collected, the department receives a report from the collection agency in addition to the payment less the collection fee. Section 95.11, F.S., limits legal or equitable action on a contract obligation or liability founded on a written instrument to within five years. BBE only submitted 18 (14%) of the 128 terminated LOFAs to Revenue Management for collections. No monies were collected for the 18 terminated LOFAs submitted to Revenue Management, and the department wrote off 17 due to the statute of limitations.

The amount owed to BBE from former vendors totaled $449,047.62 for the period of 2002 through December 31, 2014. The total amount unrecoverable due to bankruptcy or death totaled $64,155.60 leaving a recoverable total of $384,892.02. The total amount written off by Revenue Management due to the statute of limitations was $62,468.02, leaving an outstanding balance of $322,424.00. The remaining unpaid balance is reflected in the table on the next page and is then divided between LOFAs exceeding the five-year statute of limitations and the LOFAs that have not yet exceeded the five-year mark.

Unpaid Balance 2002 through 2014

	No. of LOFAs	Amount
Total Owed	128	$449,047.62
Unrecoverable due to bankruptcy or death	19	-$64,155.60
Written off due to statute of limitations	17	-$62,468.02
Total Remaining Owed	92	$322,424.00
Total Remaining Owed greater than 5 years old	61	$218,252.60
Total Remaining Owed less than 5 years old	31	$104,171.40

There were no written DBS policies and procedures in place governing the collections process. As a result, delinquent letters requesting payment on the outstanding balances were not sent in a timely or consistent manner; terminated LOFAs with outstanding balances were not being sent to collections in a timely manner; vendors were incorrectly placed in the BBE repayment plan database; and the list of BBE outstanding balances was not accurate or tracked appropriately.

Recommendation

We recommend DBS develop and implement policies and procedures to govern the collections process, to include establishing timelines for sending delinquent letters, requiring the submission of delinquent accounts to the collection agency, and ensuring repayment plans and outstanding balances are accurately tracked. We also recommend DBS make collection efforts for those accounts that have not yet exceeded the statute of limitations.

Management Response

DBS agrees with the recommendations to develop and implement policies and procedures to better govern the collections process. DBS will determine specific process steps and update appropriate BBE policies and procedures manuals, documents, forms, and collections tracking spreadsheets. The new process will be developed and communicated to all stakeholders before implementation. Renewed collection efforts will be made on delinquent accounts that have not exceeded the statute of limitations.

Finding 2: Performance Measures are not being met by the division

The Long Range Program Plan (LRPP) for the department contains three approved performance measures for state fiscal years (FY) 2013-2015 that relate to BBE vendors. DBS must make the assessment, as well as explanations and recommendations for future performance goals, available to the legislature by September 30th of each year.

The performance measures are listed on the following page:

Approved Performance Measures for state FY 2014-15	Approved Prior Year Standard state FY 2013-2014 (Numbers)
Number of blind vending food service facilities supported	153
Number of existing food service facilities renovated	5
Number of new food service facilities constructed	5

For state FY 2013-2014, DBS reported 144 blind vending food services were supported, which is 9 facilities (5.88%) less than the approved standard of 153. BBE found it necessary to consolidate a number of facilities to ensure financial viability and therefore recommended the standard be adjusted to a more reasonable goal of 145. The standard of supporting153 facilities has been the approved standard for more than ten years. DBS submitted multiple requests to change this standard. In state FY 2010-2011 they requested to decrease the number of facilities supported to 152. For state FY 2011-2012, DBS requested the standard be decreased to 150, and for state FY 2012-2013 DBS requested the standard to be decreased to 145. None of the requests have been approved by the legislative budget commission. Vendor facilities supported during the period of January 2014 through December 2014 totaled 146 facilities, including one training facility.

For state FY 2013-2014, DBS reported four existing food service facilities were renovated, one less than the approved standard of five for the LRPP. Based on program need and the availability of funds, BBE was only able to renovate four facilities. Documentation provided for the period of January 2014 through December 2014 showed that two facilities renovated in March 2014 were erroneously excluded from the FY 2013-2014 LRPP report. If DBS had included these renovations in the LRPP report, the assessment would have reflected this goal as being met for FY 2013-14. Eight renovations were completed during the 2014 calendar year, totaling $65,665.88. As of December 31, 2014, DBS has performed two of the five renovations needed in order to meet the standard for state FY 2014-2015.

DBS reported seven facilities constructed for the state FY 2013-2014 LRPP, two more than the approved standard of five. Documentation provided by BBE indicated that nine facilities had been constructed during the period of January 2014 through December 2014, totaling $263,768.23. As of December 31, 2014, DBS has constructed two of the five new facilities needed in order to meet the standard for state FY 2014-2015.

The DBS Vocational Rehabilitation state plan for federal fiscal year (FYY) 2014 states, “Three years ago it was determined that one of the most important measurements of a successful BBE program would be the percentage of recently licensed vendors staying at their first facility for at least 12 months. This would demonstrate that training adequately prepared new licensees to start at a facility and stay for at least 12 months. It was also believed that it would be a good indicator of the individual’s perseverance and on-the-job skills development.” There is not a specific goal listed for this measurement. The identified strategy is to increase successful job outcomes in the BBE Program.

We reviewed the performance for FFY 2014 (October 1, 2013, through September 30, 2014). Thirteen DBS clients were licensed during that time period, which supports the information submitted on the state plan. Six of the 13 newly licensed clients were awarded their first facility as of January 6, 2015. One of these 6 (17%) had stayed for at least 12 months, and 5 (83%) were currently at the first facility but had not yet reached the 12-month mark.

In measuring its performance, BBE begins with the DBS clients who were licensed during the applicable FFY. Of those, they identify the number of licensees who were awarded a facility during that same FFY. They then identify the number of those vendors who remained employed with that facility for at least 12 months. Using this method to measure performance causes numbers reported to change in subsequent FFYs. As licensees are awarded facilities and then stay in those facilities for 12 months, they are added to the count for the FFY in which they became licensed. The numbers reported for this measurement cannot be definitively determined for several years.

Recommendation

We recommend DBS refine its methodology for reporting on the measurement identified in the state plan in order to more accurately reflect numbers for each federal fiscal year. We also recommend DBS set a percentage goal for the number of licensed operators staying at their first facility for at least 12 months.

Management Response

DBS agrees with the recommendation. DBS will refine its methodology and will establish criteria for a meaningful percentage goal that indicates new vendor success rates.

Closing Comments

The Office of the Inspector General would like to recognize and acknowledge the Division of Blind Services and staff for their assistance during the course of this audit. Our fieldwork was facilitated by the cooperation and assistance extended by all personnel involved.

To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of section 20.055, F.S., and in accordance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The audit was conducted by Tiffany Hurst and supervised by Janet Snyder, CIA, CGAP, Audit Director.

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