Opportunities for Ohioans with Disabilities Business Enterprise Program Revenue Audit

Audit Period: July through December 2017

Results Summary:

Objective	Conclusion*
Accurate, complete, and timely monthly operating reports.	**Improvement Needed**
Receipt and use of revenue.	**Improvement Needed**

* Refer to Appendix A for classification of audit objective conclusions.

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Executive Summary

Background

The Opportunities for Ohioans with Disabilities' (OOD) Business Enterprise Program (BEP) provides people who are legally blind with employment opportunities as managers and operators of food service facilities. The food service facilities are in government buildings and at roadside rest stops. BEP has more than 120 food service and vending enterprises in Ohio. A BEP operator is the sole proprietor of a business. Like any other business, income is tied to profits as there are no wages or payments by a state, federal or county government. The average yearly personal income of a BEP manager is $43,000. BEP operators employ more than 180 people in Ohio; many are people with disabilities. BEP operators hire and supervise their own employees.

OOD's Bureau of Services for the Visually Impaired (BSVI) uses federal Rehabilitation Services Vocational Rehabilitation grants and state funds to administer the BEP. The matching requirements is 78.7 percent federal and 21.3 percent non-federal funds for the total of all expenditures incurred under the program.

BSVI specialists review Monthly Operating Reports (MOR) from the BEP operators. The MOR is for the operators to report facility financial information to OOD. Operator service charges are derived by amounts of monthly proceeds, as reported on the MOR. Operators electronically submit MORs and pay service charges through the Ohio Business Gateway which interfaces with the Business Enterprise Administrative Management System (BEAMS). OOD may use BEP operator service charge revenue as part of the non-Federal share for vocational rehabilitation services. Services may include establishment of a liability insurance program for food stand operators, maintenance, repairs, and remodeling to vending stands and purchasing new equipment.

The BEP receives janitorial and maintenance fees paid by rest stop vending machine owners (BE operators). OOD passes the fees to the Department of Transportation for upkeep of rest stops. The BEP does not use these dollars as local match.

The BEP collects revenue from federal government entities to keep BE operators out of facilities and collects commissions for vending machines and food services operated by third-party vendors on non-federal property. This income is currently not used as match and is directly returned to BE operators.

During the period July through December 2017, the BEP collected the following revenue:

- $369,436 - service charges,

- $90,431- janitorial and maintenance fees,

- $69,501 - commissions for vending machines and food services operated by third-party vendors on non-federal property, and

- $10,698 – fees from federal government to keep BE operators out of facilities.

During the audit, OIA identified opportunities for OOD to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank OOD staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's Business Enterprise Program. This work was completed January through March 2018. The scope of this audit was the Business Enterprise Program.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls for receipt of accurate, complete, and timely monthly operating reports.
- Evaluate the design and effectiveness of controls for receipt and use of revenue.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Lack of Verification of MOR Information

Per Ohio Administrative Code (OAC) § 3304:1-21-08, operators pay service charges to OOD's Business Enterprise (BE) program for each facility based on net proceeds reported in the Monthly Operating Report (MOR). According to OAC § 3304:1-21-04 (A) BE operators shall:

(19) Prepare and retain a detailed daily cash report for each day there is a business expenditure or revenue collection including itemized expenditures on the daily cash report.

(20) Prepare a report listing monthly totals to include but not limited to, sources of total monthly receipts and requested expenditures. The listing of monthly totals shall include revenue collection for each business address location for the assigned facility.

(21) Upon request by BE an operator shall provide supporting documentation of information reported on the MOR. Verification of information does not constitute a records review.

However, BE personnel do not request supporting documentation from BE operators of information reported on the MORs. BE personnel also perform no trend analysis or reporting to identify potentially underreported income or overreported expenses on MORs. Instead, MORs are automatically accepted by the system, Ohio Business Gateway (OBG), if cash balance figures are correctly calculated (beginning cash + income – expenses = ending cash balance). According to OAC § 3304:1-21-13 (A)(1), BE may deny, revoke, or suspend a license upon proof that the licensee or applicant has engaged in fraud, material deception, or material misrepresentation. However, BE does not perform reviews to identify such issues.

According to OOD management, its interpretation of the OAC does not allow BE personnel to request supporting documentation for revenue reported on MORs. In January 2018, BE began requesting expenditure supporting documentation from BE operators to confirm reported expenses. However, OOD lacks monetary recourse since OAC § 3304:1-21-09 limits penalty payments to payments that are unpaid, incomplete, or late or checks returned for insufficient funds.

No review of supporting documentation or trend analysis of information reported on MORs increases the risk of incorrect MOR information without detection and may result in reduced service charge fees received from BE operators. Lack of validating MOR information may also result in material misstatements without detection.

Recommendation

Develop and implement procedures to request and review supporting documentation for revenues and expenditures reported on MORs to confirm accuracy, completeness, and validity of reported information. Pursue revisions to OAC Chapter 3304:1 Part 21, if requests and reviews of MOR information is not permitted.

At a minimum, develop and implement procedures to conduct trend analysis reporting of MOR information. Trending/analyses may include the following to detect unusual fluctuations, outliers, and potentially incorrect reporting:

- Monthly and yearly revenues of a facility.
- Monthly and yearly total expenditures of a facility.
- Monthly and yearly revenues of similar types of facilities such as vending, cafeterias, etc.
- Specific monthly expenditure line items of all facilities.
- Monthly and yearly Operating Expense Ratios (operating expenses divided by operating revenues) to identify facilities maximizing expenditures.

Define criteria and parameters to assist BE personnel in determining outliers to pursue and request documentation from operators. The analyses and ratios may also assist BE personnel in identifying operator performance issues and material misstatements.

Management Response

Changes that have already been implemented:

- We have created a report which is a summary of each facility's operations as reported on MOR. This past January, we enhanced this report to include year-to-year comparison.

- Area Managers review report of all MOR monthly. If any outliers in expenses are identified, then all operators that claimed those expenses are asked to provide documentation verifying those expenses, in addition to randomly selecting other expenses.

- We analyze key line items on the MOR on an annual basis to set facility goals for the following year based on historical trends and any forecasted changes. If the operators do not achieve their goals, this will affect the operator's ability to be successfully awarded a new facility (OAC 3304:1-21-03).

Changes to implement:

- Once we receive a final report, we will share these findings and our response with the Ohio Vendors Representative Committee (OVRC).

- We will work with OVRC on an improved methodology when verifying monthly receipts and a strategy for operators who are not in compliance.

- We will create a policy and procedure documenting the current process of verifying expenses and documenting in BEWeb.

- We will continue to create reports that look at the trends of each facility by month and will be sharing that information with the respective operators. BE Consultants will document conversations in BEWeb.

We will work with OVRC on improving the OAC 3304:1-21 for the next rule package submission.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	BE Program Manager	December 2018

* Refer to Appendix A for classification of audit observations.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee