DEPARTMENT OF REHABILITATION

The Business Enterprises Program for the Blind Is Financially Sound, but It Has Not Reached Its Potential

REPORT NUMBER 99020, JUNE 2001

Department of Rehabilitation's response as of June 2002

Audit Highlights . . .

The Department of Rehabilitation could improve its fiscal administration of the Business Enterprises Program for the Blind (program) by:

- ☑ *Preparing a comprehensive business plan to better monitor and prioritize the use of its program resources.*
- ☑ *Better identifying, pursuing, and collecting vending machine commissions.*

As required by the California Welfare and Institutions Code, we conducted a fiscal audit of the Department of Rehabilitation's (department) Business Enterprises Program for the Blind (program). This, our third and final fiscal audit of the program, found that the Vending Stand Fund (vending stand fund) and the Vending Machine Account (vending machine fund) are financially sound. Each fund adequately provides for the program's needs and for the blind participants' pension plan. Nevertheless, the department could improve its fiscal management of the program by developing a comprehensive plan outlining the program's growth and by pursuing more actively the vending machine commissions that support the participants' pension plan. Specifically, we found:

Finding #1: The department could benefit from a comprehensive business plan outlining future fund use.

The program could benefit from a comprehensive business plan outlining the program's growth and the department's plans for the vending stand fund's reserves. The vending stand fund's assets exceeded its liabilities by approximately $3.8 million, of which $2.1 million—called a surplus—is available for future program purposes. However, the department has not prepared a comprehensive business plan demonstrating that its proposed uses for this surplus are appropriate and feasible. By developing such a plan, the department could better monitor and prioritize its use of this surplus.

We recommended that the department complete its strategic plan, including a component that outlines its proposed uses of the vending stand fund surplus, which will help the department determine whether the surplus is appropriate for future program needs.

Department Action: Corrective action taken.

The department stated that it completed a strategic plan for the program, including a three-year fiscal plan that will enable program management to improve overall planning for and management of its use of the vending stand fund.

Finding #2: The department could do more to collect additional vending machine commissions.

The department could increase vending machine income by identifying additional state and federal locations in which to install machines and by pursing commissions from vending machine operators or agencies that have failed to remit these commissions. Although the department asserts that it lacks the resources needed to pursue and collect commissions adequately, we found that other states have composed their statutes to allow the use of certain vending machine commissions to help administer the program. The department's failure to collect all available vending machine commissions has a direct impact on the blind vendors' pension plan, to which a majority of these funds are allocated.

We recommended that the department complete its survey of state and federal properties to identify sites for additional vending machines. Additionally, it should identify and pursue the collection of vending machine income from agencies and vending machine operators that refuse or fail to remit commissions and should verify the status of entities that claim they are exempt from having to remit vending machine commissions. Finally, to address its staffing needs, the department should evaluate whether it should redirect staff from other units, contract for professional services, or possibly seek legislation to amend state law so that the department can use some of the vending machine commissions for the hiring of staff.

Department Action: Partial corrective action taken.

The department stated that it completed the survey process and identified only five locations that it considered feasible for development. The department reported the survey results to the Legislature and the California Vendors Policy Committee in March 2002.

Regarding the pursuit and collection of vending machine commissions, the department's position related to commissions from the California State University system remains unchanged. The department believes that it has met its obligation to pursue commissions from the university system and has taken all reasonable steps to ensure compliance. In its response to our September 12, 2002, report, *Department of Rehabilitation: Its Delay in Correcting Known Weaknesses Has Limited the Success of the Business Enterprise Program for the Blind,* the department stated that it began pursuing past-due commissions in July 2002. However, we found that at that time it did not have a sufficient plan and it could not estimate the amount of past-due commissions.

The department also noted that it contracted with a consultant to develop a database system that will enable it to track and follow up on delinquent commission payments by August 2002. However, as we reported in our September 2002 report on this program, this system was inadequate to track the commissions. As of November 2002, the department reported that it still intends to improve the collection of past-due commissions. The department further indicated that it would seek to reestablish communication with the California Highway Patrol to resolve the issues related to collecting and remitting vending machine commissions as required by law. The department expected to resolve this issue in June 2002. However, as we reported in our September 2002 report on this program, the department currently is not actively pursuing the collection of commissions from potentially exempt organizations.

In addressing its staffing needs, the department asserted that it completed its strategic plan for the program and determined that due to budget reductions and the current hiring freeze, it has no additional staff resources to devote to the vending machine unit. However, it believes it will be able to maintain the vending machine database with its current staff and the assistance of a consultant. The department continued to investigate the feasibility of procuring the services of a private contractor to administer and collect the vending machine commissions and expected to reach a decision by August 2002. As disclosed in our September 2002 report on this program, the department was still reviewing the feasibility of this option, but had missed its initial August 2002 deadline to make its decision. Finally, the department reported that it would be imprudent to consider changes to state law that may conflict with federal law without formal written agreement from the federal government regarding the use of commissions from machines on state property for administrative staff. However, the department did not indicate whether it had sought this written agreement from the federal government.