

# DEPARTMENT OF REHABILITATION

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

REPORT NUMBER 99020, JUNE 2001

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### ***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.***
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**A**s 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: Partial corrective action taken.***

The department stated that program management has prepared a strategic plan for the program, which department management is reviewing. In addition, the department is currently working on a three-year fiscal plan that will enable program management to improve overall planning for its use of the vending stand fund. The department estimates approval of the strategic plan and completion of the fiscal plan in March 2002.

**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 pursuing 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: Pending.***

Although it originally believed that it would be able to complete the survey report by January 1, 2002, the department has not yet completed the survey because the survey process was more complex than anticipated. However, the department has assigned additional staff to assist with the project and estimates the completion of a draft report for department management review in February 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. As for its pursuit of commissions from vending machine operators that have failed to remit commissions, the department anticipates that its new vending machine operator database system will enable it to start tracking and following up on some delinquent commission payments by February 2002, with full implementation by July 2002. The department also stated that its legal staff is still reviewing the information that the California Highway Patrol provided in April 2001 regarding its exemption from having to remit commissions. The department expects to complete its review and resolve this issue in March 2002.

To address its staffing needs, the department stated that it would use the results of its strategic planning for the program to determine if it can allocate staff from other units. In the interim, staff from the technical support unit are adjusting their workload, when possible, to assist in implementing the vending machine operator database. The department is still investigating the issues involved with obtaining a private contractor to administer and collect the vending machine commissions. In addition, the department reported that it would look at staffing needs within the program and consider consulting with the federal government regarding the possibility of using commissions from machines on state property for administrative staff. The department anticipates completing its evaluations and the strategic plan for the program in March 2002.

