



Dave Yost • Auditor of State



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To the Commissioners and Staff of the Ohio Rehabilitation Service Commission, and Interested Citizens:

In response to a request from the Ohio Rehabilitation Services Commission (RSC), the Auditor of State's office conducted a performance audit of the physical asset management practices and inventory of the Business Enterprise Program (BEP or the Program). The audit provides an independent examination of the BEP physical asset inventory and asset management practices for the Program's services to visually impaired operators. This is the fourth audit of this kind that the Auditor of State has performed for BEP.

A report has been prepared which includes the project history; the scope, objectives and methodology of the performance audit; results of the audit; and recommendations. The performance audit report contains the results of the inventory and a comparative analysis for selected facilities to the prior year inventories conducted for BEP.

Auditors conducted follow up work on the recommendations originally made in the 2008 and 2009 audits. The results of the follow up work are included in this 2012 report. Once fully implemented, these recommendations will provide operational improvements over physical asset management while enhancing the efficiency and effectiveness of the organization. Although the recommendations contained in the audit report are resources intended to assist in improving operations within the Program, BEP is also encouraged to assess its operations and develop alternative strategies independent of the performance audit.

This report has been provided to BEP and its contents have been discussed with the Program administrators and other appropriate personnel. BEP has been encouraged to use the results of the performance audit as a resource in improving overall operations and delivery of services and to update its current physical asset records.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.ohioauditor.gov/> by choosing the "Audit Search" option.

Sincerely

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 8, 2012

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Business Enterprise Program

The Ohio Rehabilitation Services Commission (RSC) provides vocational rehabilitation services to eligible Ohioans with disabilities who seek employment. Specifically, the Bureau of Services for the Visually Impaired (BSVI) and the Business Enterprise Program (BEP, or Program) provide people who are legally blind with employment opportunities as managers and operators of foodservice and vending facilities. At the time of the audit, BEP comprised 110 facilities with more than 100 operators that are managed by 9 specialists organized into 7 districts.

Objectives, Scope and Methodology

In March 2012 RSC engaged the Auditor of State's Office (AOS) to audit its physical asset inventory in selected districts. A full physical asset inventory audit was also conducted in 2011, 2010, 2009 and 2008. The 2012 audit, as with all prior audits, was conducted in accordance with generally accepted government auditing standards. The audit procedures were designed to satisfy the scope of the audit and, as a result, may not detect misstatements, significant control deficiencies, or noncompliance that might be significant to RSC.

The scope of the audit included conducting a physical count of BEP equipment in selected districts and comparing it to the existing inventory. The results of this current audit were compared to the results of the previous equipment inventory exception and variance rates. The districts audited were selected based on the previous year's exception and variance rates, with additional consideration for new facilities in the program.

The Ohio Administrative Code (OAC) 3304:1-21-11 requires an annual equipment inventory, records review, and such facility visits as required to document management and operational deficiencies and to support plans of corrective action. OAC requirements complement the Code of Federal Regulations (CFR) 34 Chapter III 395.3a. (5), which requires state licensing agencies to note "the policies to be followed in making suitable vending facility equipment and adequate initial stock available to a vendor." To determine the extent to which BEP complied with applicable OAC and CFR requirements, AOS used the most current detailed list of BEP facilities and sites generated from RSC's Business Enterprise Asset Management Software (BEAMS). Auditors and BEP personnel mutually selected 67 sample facilities (about 60.9 percent of all 110 facilities) based on prior performance and recent management changes. Auditors made site visits to each selected facility, verified and documented the on-site equipment inventory and, where appropriate, recorded discrepancies between physical assets and the information maintained in BEAMS.

These discrepancies were categorized as exceptions¹ and variances.² Although there was some overlap among exceptions and variances, generally, exceptions were BEP inventory tag issues and variances comprised all other issues identified during the inventory verification process. The number of exceptions and variances identified during the site visits were converted to a percentage for the purposes of this report. Since only one exception could be counted per inventory item, the exception percentages were calculated by dividing the number of exceptions found by the total number of exceptions possible (one exception per inventory item). Three variances could be noted for each inventory item (errors in location, serial number, or model number), therefore the variance percentage was calculated by dividing the number of variances found by the total number of variances possible (three variances per inventory item). Because BEP maintains a large volume of assets estimated to have a substantial value (approximately \$11.8 million based on the purchase prices of the equipment), it is essential that an accurate inventory and asset disposition record is maintained.

This report contains summary tables of the exceptions and variances identified during the audit. Detailed records were provided to BEP administration. In addition, the report notes that process improvements undertaken by BEP have led to better inventory results. The efforts by management to improve controls and staff's understanding of these controls and procedures led to improved count results. Procedural concerns and methods of tracking, transferring, and storing equipment were identified as factors contributing the exceptions and variances noted in the audit.

Cyclical Physical Inventory Counts

In the original BEP performance audit, released in December of 2008 (see **2008-2**), AOS recommended transitioning from wall-to-wall inventory counts to cyclical physical inventory counts once inventory controls improved. Overall, 2012 inventory assessments resulted in approximately 3 percent exceptions and 4 percent variances. These results represent significant improvement and exceed the 5 percent threshold benchmark suggested in the 2008 recommendation.³ BEP chose to implement cyclical inventory procedures based on agency goals and an accuracy threshold for exceptions of 95 percent.⁴ The details that follow provide

¹ An exception was noted if equipment was not tagged in accordance with BEP inventory tagging procedures. Specifically, if a unit of equipment was onsite and did not have an accurate BEP inventory tag, it was noted as an exception. If the equipment was listed on the BEAMS active equipment report and was not found in the facility, or was onsite and was not listed in the BEAMS active equipment report, an exception was noted.

² A variance was noted when the equipment at the facility, according to the BEAMS report, was not documented correctly in the system because of its location, serial number, and/or model number.

³ The 2008 audit recommended threshold benchmarks of 95 percent accuracy for variances and exception. This translates to less than 5 percent error rate in each category.

⁴ Establishing accountability is the first key factor described in a report published by the Government Accounting Office (GAO) in 2002, "Best Practice in Achieving Consistent Accurate Physical Counts of Inventory and Related

information about the exceptions and variances so that facilities and districts can be evaluated for planning and revising inventory procedures.

Summary Report of Selected Active Facility Inventories

The following tables and charts document the results of the audit of BEP's physical asset inventory at the 67 selected facilities and illustrate the discrepancies and differences in the physical assets and the BEAMS inventory report. **Table 1** illustrates the exceptions and variances within the selected districts.

Table 1: Exception and Variance Comparison Summary by District

District	Equipment Count	Number of Exceptions	Percent Exceptions	Number of Variances	Percent Variances
District 1 - Cincinnati	220	6	2.7%	27	4.1%
District 2 - Dayton	427	19	4.4%	97	7.6%
District 3 - Toledo	424	2	0.5%	46	3.6%
District 4 - Columbus	729	25	3.4%	52	2.4%
District 5 - Zanesville	236	1	0.4%	3	0.4%
District 7- Cleveland ¹	5	0	0.0%	0	0.0%
Total	2,041	53	2.6%	225	3.7%

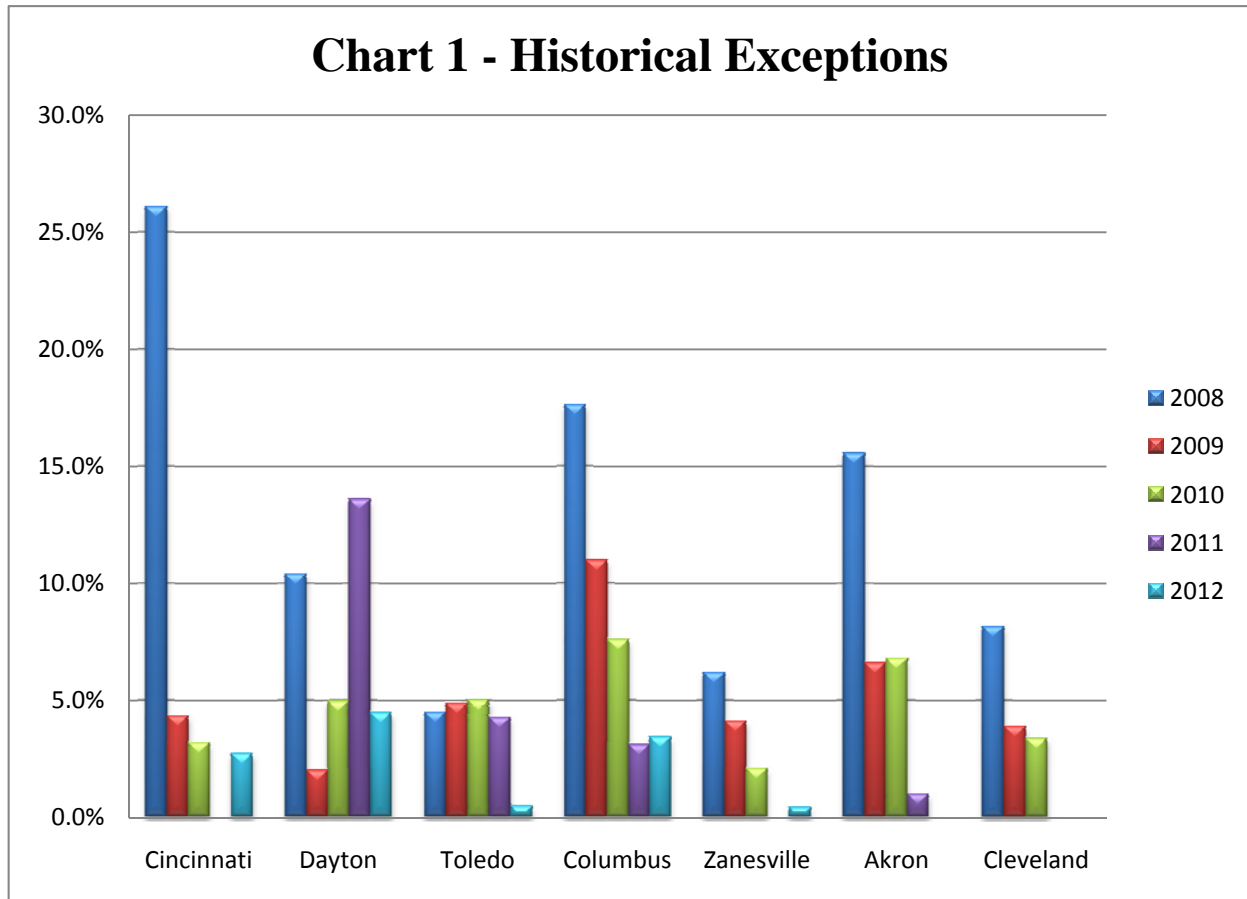
Source: AOS inventory audit

Note: Percentage exception and variance calculated using exceptions and variances divided by total equipment units. Variance error was adjusted by a (3x) factor to represent a weighted error.

¹ Only one facility audit was performed in the Cleveland region.

Property" (GAO-02-447G Best Practices in Inventory Counts) and could be used by management as a basis for setting error tolerance to use for cyclical inventory.

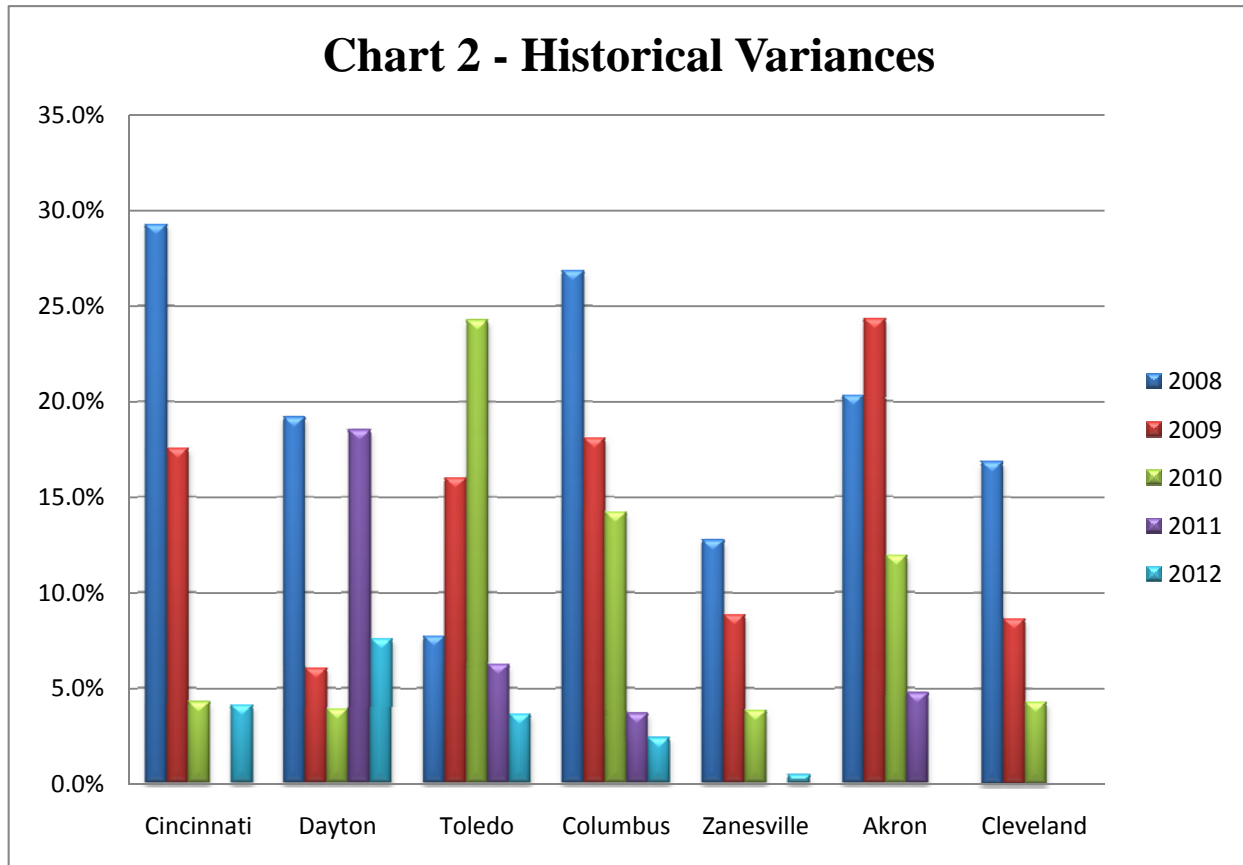
Chart 1 presents historical exceptions for the selected districts for years 2008 through 2012.



Source: AOS inventory audit data

As shown in **Chart 1**, all 2012 results are lower than prior years. Audits were not performed for Cincinnati, Cleveland, and Zanesville in 2011 and for Akron in 2012 due to prior year progress. In 2012, all new facilities were audited. For this reason, only one facility in Cleveland was audited, and no exceptions were identified.

Chart 2 presents historical variances for the districts for years 2008 through 2012.



Source: AOS inventory audit data

As shown in **Charts 1** and **2**, the districts have shown a basic trend toward improvement. As a general matter, exceptions have been reduced to a greater degree than variances. While certain districts have experienced episodes of increased variances, these have often been associated with new facilities opening or changes in management. In other cases, it should be noted that the methodology for reporting variances may penalize increased attempts to detail the information associated with the equipment, such as the model number, the serial number, and the description. Because the methodology of the audit is to check data listed in the inventory system for error while ignoring missing data, the fluctuations in variance error may reflect BEP's attempts to update this previously missing data. Proportional errors may occur as the information is verified and corrected. The number of exceptions and variances also may be influenced by the process of targeting and eliminating annual audits for districts that have achieved performance benchmarks. For example, in 2011, the Cincinnati, Cleveland, and Zanesville districts were not audited, and in 2012, Zanesville was audited and was recorded as having no variances.

Changes in Inventory Accuracy 2008-2012

Historical Performance

In 2012, the percent of exceptions, that is, the percent of equipment that did not have an asset tag with a number that matched the asset tag number recorded in BEAMS, decreased to its lowest point in the last five years. At 2.6 percent, this was a 2.3 percent improvement from the prior year and an 11.7 percent improvement since 2008 when the audits were first initiated.

In 2012, all districts except Columbus improved performance relative to the prior year. The change in Columbus was primarily due to new management of one section (Columbus A), which represented 76.0 percent of the exceptions. Although the error rate in the Columbus District was higher than the prior year, the Dayton District had the highest error rate in 2012. The Dayton District, which had shown an increase in exceptions in 2011 due to the opening of new facilities and changes in management, returned to an exception level more consistent with prior performance. Although Dayton was still the highest of the district audits in terms of exceptions, the percentage was within the targeted error rate of 5 percent. Thus, 2012 marked the first year that error rates in all districts were within the targeted accuracy rates for exceptions. The trends demonstrated that some of these past errors may have been caused by tagging and timing issues related to openings of new facilities and changes in management.

In 2012, AOS identified variances in 3.7 percent of the equipment in BEAMS, a 3.4 percent improvement from the prior year and a substantial improvement from 2008 when variances were approximately 21.3 percent. While all districts showed improvement from the prior year, the variance error rate has tended to fluctuate and has consistently been higher than the exception rate. While the specialists have made an effort to remedy these errors, some problems are related to technology (such as serial numbers being truncated when initially entered into the inventory system) and some are related to the physical environment (serial tags on the backs of equipment that cannot be viewed because equipment is too heavy or in use and cannot be moved). Other errors are connected to the protocols for describing the appropriate recording of equipment descriptions, locations, serial and model numbers, and the inventory repair status. The Dayton District and one section of the Cincinnati District (Cincinnati A) had error rates that were higher than the benchmark of 5 percent. These areas specifically represent opportunities for continued improvement.

Having achieved the targeted error rate in exceptions, the BEP discussed with audit staff the methodology for variance errors and concerns expressed about standards in this area. As specialists within BEP seek greater accuracy, attention has turned to differences in internal definitions within the Program on recording equipment information. During the course of the audit, the management and specialists discussed and initiated plans for developing a formal

protocol system to identify expectations for properly recording equipment information and options on how to overcome specific challenges to improving exception and variance error rates.

Cincinnati District

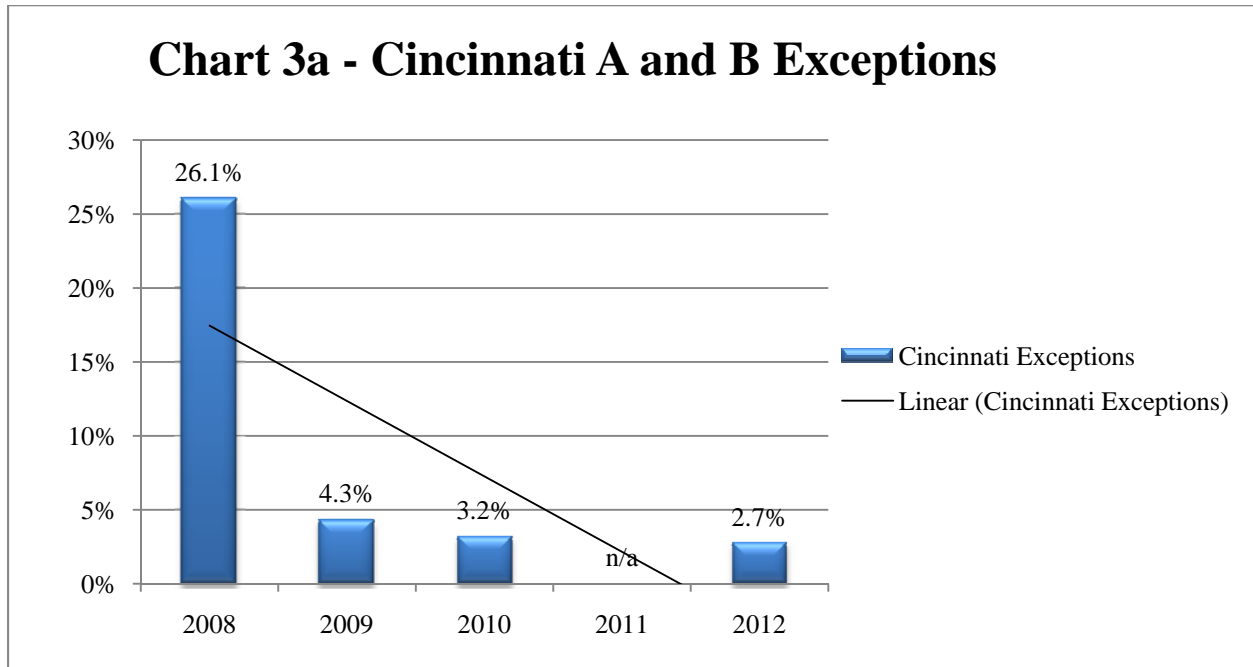
The Cincinnati District covers Cincinnati and southwestern Ohio and is split into two sub-districts: A and B. Combined, these include 21 separate facilities, although only 11 were selected to be audited in 2012. The results of the physical asset review for the Cincinnati District are illustrated in **Table 2** and **Charts 3a** and **3b**.

Table 2: District 1 Cincinnati, 2012 Exceptions and Variances by Facility

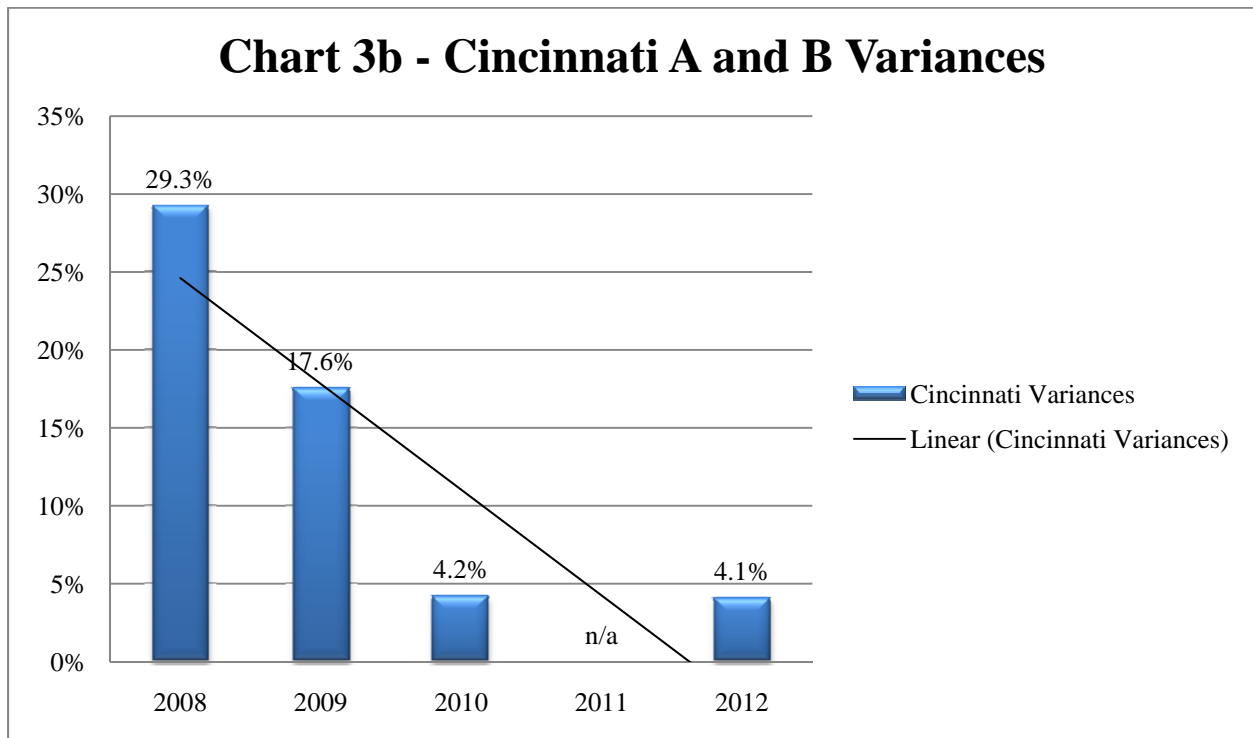
Facility Number	Exceptions		Variances		BEAMS	AOS
Cincinnati A						
45	0	0.0%	1	1.9%	18	18
430	1	10.0%	3	10.0%	9	10
431	2	15.4%	5	12.8%	12	13
432	0	0.0%	1	2.1%	18	16
433	1	5.0%	7	11.7%	21	20
506	1	4.2%	4	5.6%	24	24
713	0	0.0%	0	0.0%	2	2
A Totals	5	4.9%	19	6.1%	104	103
Cincinnati B						
323	0	0.0%	1	1.7%	20	20
369	0	0.0%	3	3.7%	27	27
489	1	2.6%	2	1.8%	38	38
490	0	0.0%	2	2.1%	32	32
B Totals	1	0.9%	8	2.3%	117	117
A & B Totals	6		29		221	220
Total Equipment		220				
Percentage Exception		2.7%				
Percentage Variance		4.4%				

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

As illustrated in **Charts 3a** and **3b**, Cincinnati District exceptions and variances decreased slightly in 2012, from 3.2 and 4.2 percent to 2.7 and 4.1 percent, respectively. Both were under the 5 percent threshold in overall error rates. However, Cincinnati A was separately higher in its error rates of 4.9 percent exceptions and 6.1 percent variance. Based on this, Cincinnati B should be considered for cyclical counts next year, but Cincinnati A should continue annual counts until achieving the targeted accuracy.

Dayton District

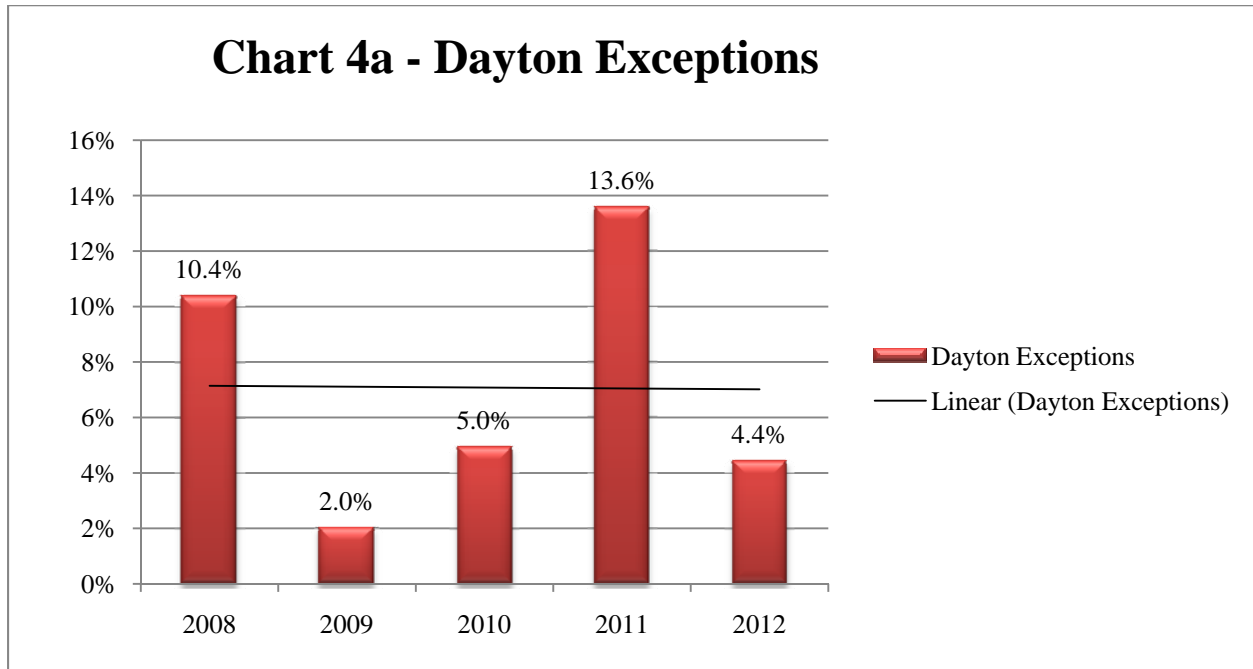
The Dayton District covers the western portion of central Ohio and includes 16 separate facilities. During the 2012 audit, 13 of these facilities were selected for audits. The results of the physical asset review for the Dayton District are illustrated in **Table 3** and **Charts 4a** and **4b**.

Table 3: District 2 Dayton, 2012 Exceptions and Variances by Facility

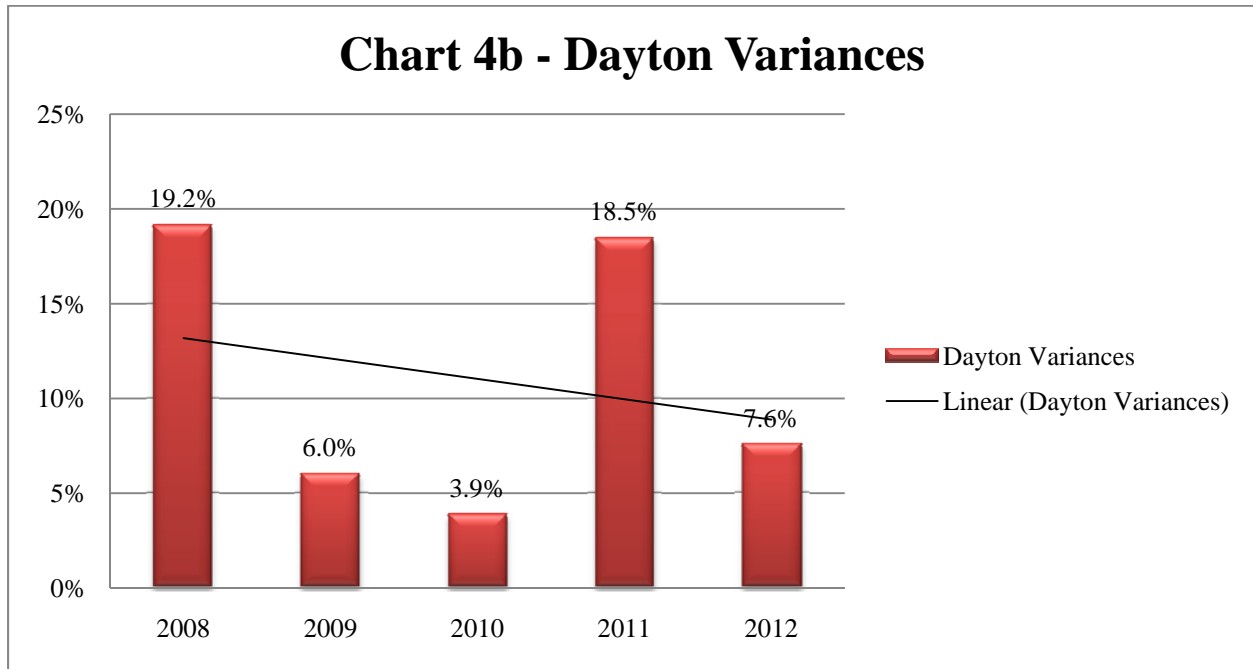
Facility Number	Exceptions		Variances		BEAMS	AOS
261	0	0.0%	8	7.8%	34	34
296	1	4.5%	4	6.1%	23	22
318	2	5.4%	13	11.7%	37	37
439	0	0.0%	0	0.0%	9	8
440	0	0.0%	1	2.8%	12	12
502	1	2.1%	9	6.3%	49	48
507	0	0.0%	0	0.0%	2	2
531	3	7.0%	16	12.4%	43	43
538	2	2.6%	13	5.6%	77	77
697	3	5.9%	6	3.9%	52	51
698	4	10.3%	12	10.3%	41	39
701	2	4.0%	12	8.0%	48	50
714	1	25.0%	3	25.0%	5	4
Totals	19		97		432	427
Total Equipment		427				
Percentage Exception		4.4%				
Percentage Variance		7.6%				

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

As illustrated in **Charts 4a** and **4b**, Cincinnati District exceptions decreased from a high percentage of exceptions and variances identified in 2011. The 2011 increase occurred as a result of facility reassignments, changes in specialists, and the addition of facilities at Wright-Patterson Air Force Base. Although the District improved the error rates from the previous year, the rates were still among the highest noted across all of the Districts. The exception and variance trends and actual results indicate that the BEP should continue to employ wall-to-wall counting at these facilities in 2013 to ensure continued improvement.

Toledo District

The Toledo District covers the northwestern portion of Ohio. The specialist for this region manages nine facilities in the Toledo area as well as three facilities in Dayton and one facility in Mansfield.⁵ The exceptions and variances identified for this specialist are illustrated in **Table 4** and **Charts 5a** and **5b**.

Table 4: District 3 Toledo, 2012 Exceptions and Variances by Facility

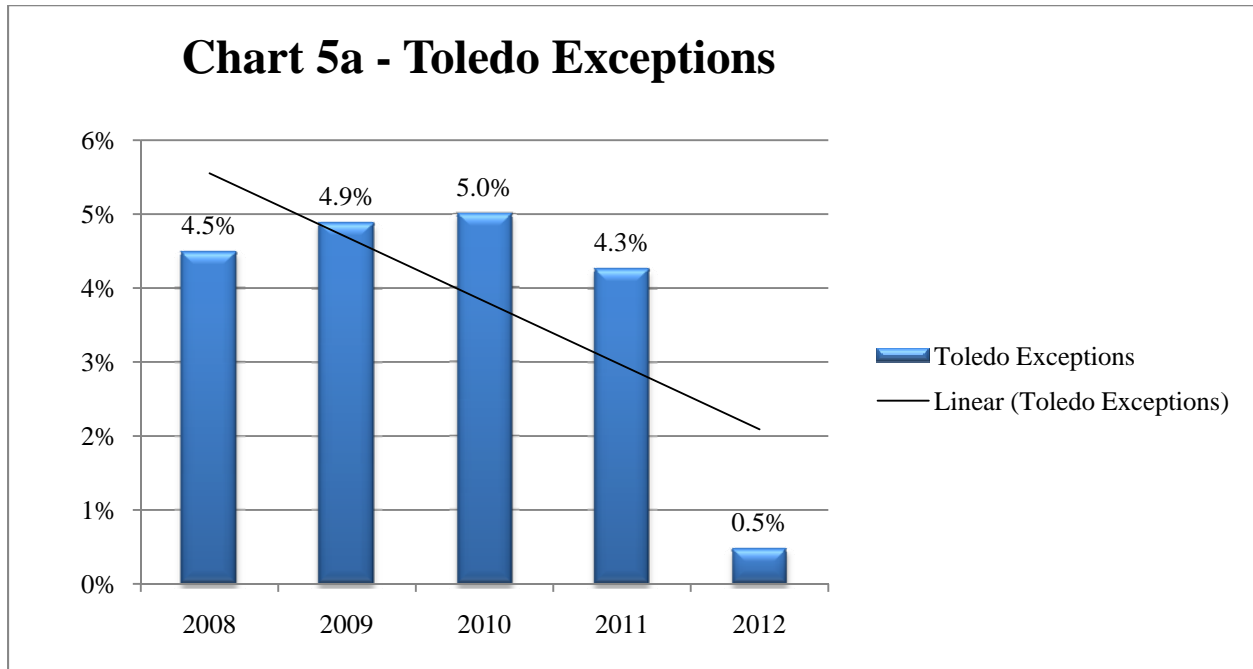
Facility Number	Exceptions		Variances		BEAMS	AOS
304	1	1.2%	9	3.5%	85	85
344	0	0.0%	7	4.7%	50	50
370	1	2.3%	8	6.2%	42	43
413 ¹	0	0.0%	0	0.0%	28	28
425 ¹	0	0.0%	0	0.0%	22	22
444	0	0.0%	0	0.0%	20	20
445	0	0.0%	0	0.0%	14	14
447 ¹	0	0.0%	1	2.8%	12	12
448 ¹	0	0.0%	2	2.2%	30	30
450	0	0.0%	1	3.7%	9	9
483	0	0.0%	14	5.0%	93	93
543	0	0.0%	4	7.4%	18	18
Totals	2		46		423	424
Total Equipment		424				
Percentage Exception		0.5%				
Percentage Variance		3.6%				

Source: AOS inventory audit data and BEAMS

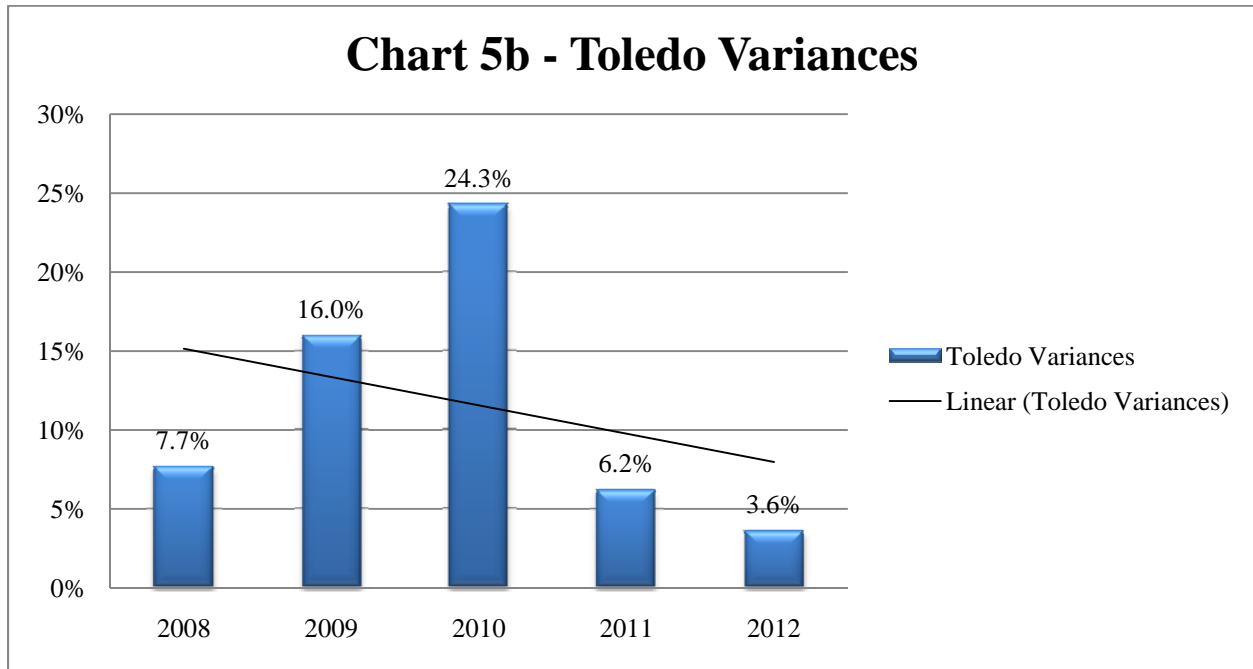
Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.

¹ These facilities were not in the Toledo District: 413 was in Mansfield/ Cleveland District and 425, 447, and 448 were in the Dayton District. However, all were managed by the Toledo specialist.

⁵ This represented a change from past audits that have identified facilities solely by District and then noted that other specialists were managing facilities in the region. This difference was considered appropriate since it more closely correlates with the management and accountability of these facilities.



Source: AOS inventory audit data



Source: AOS inventory audit data

As illustrated in **Charts 5a** and **5b**, the Toledo District exceptions decreased and remain under the 5 percent benchmark. The variance chart shows a continued decrease from the 2010 high 24.3 percent in 2010 to 6.2 percent in 2011. The variance trend and actual results shown in **Chart 4b** support cyclical counting in future years.

Columbus

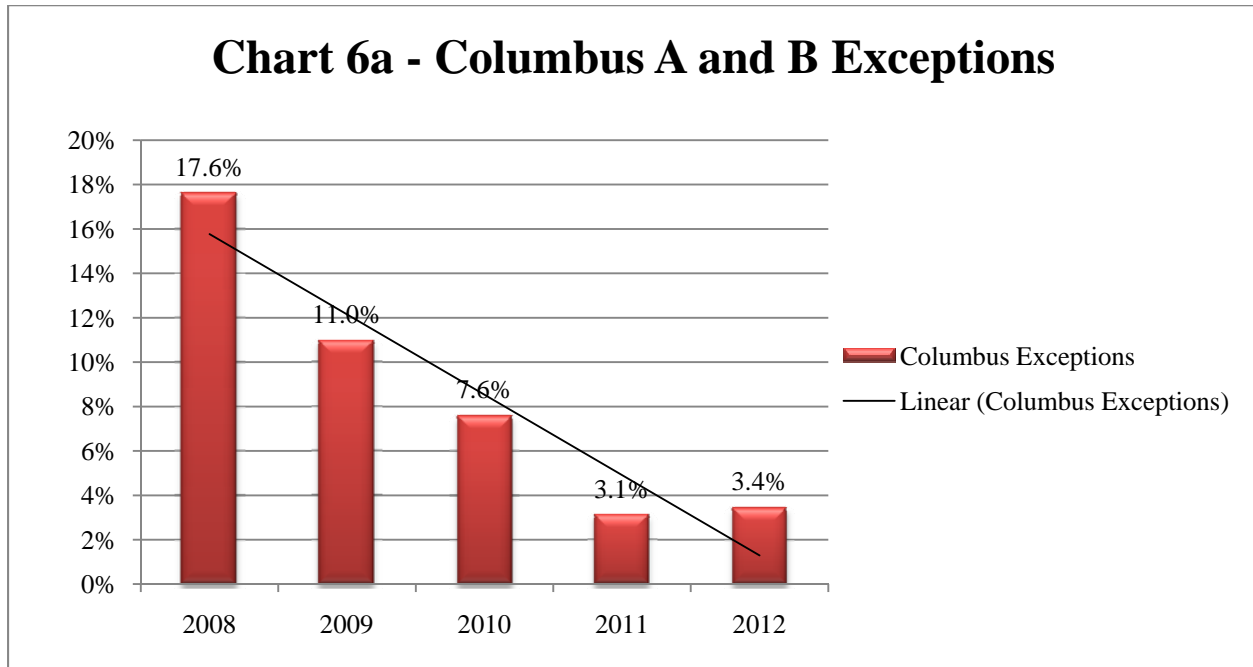
District 4 covers Columbus and central Ohio and is split into two sub-districts: A and B. Columbus A and B include 25 facilities that are managed by two specialists. Of these facilities, 21 were selected and audited in 2012. The exceptions and variances noted in the Columbus District are illustrated in **Table 5** and **Charts 6a** and **6b**.

Table 5: District 4 Columbus, 2012 Exceptions and Variances by Facility

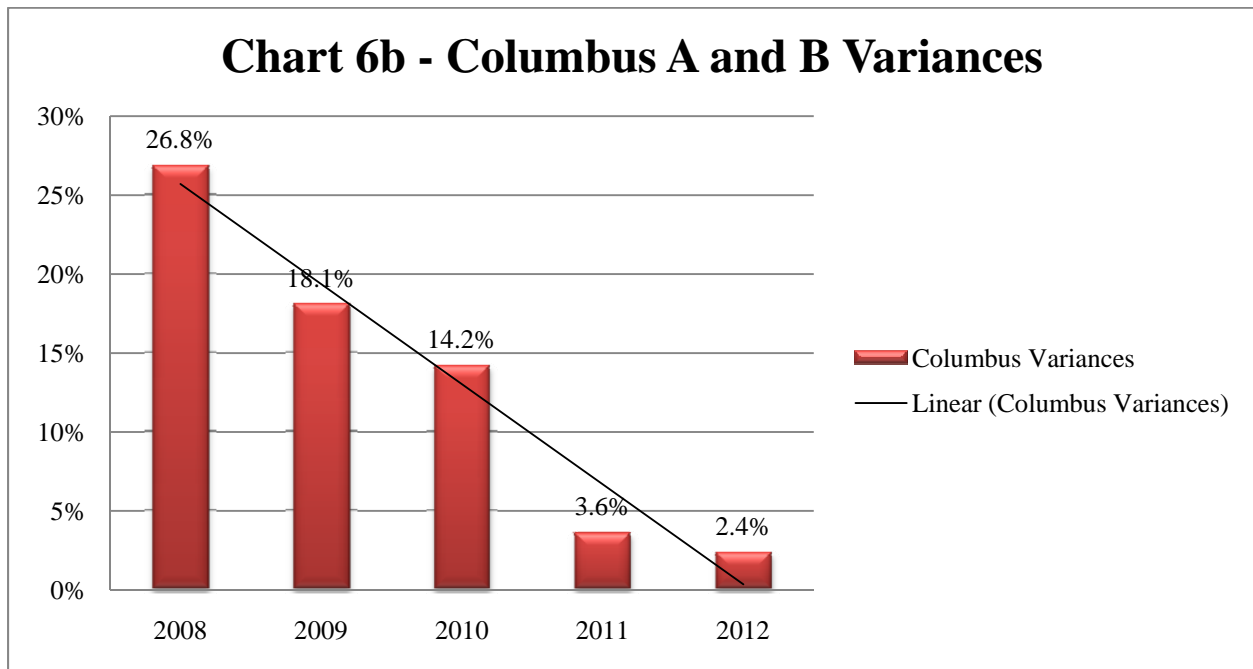
Facility Number	Exceptions		Variances		BEAMS	AOS
Columbus A						
245	0	0.0%	0	0.0%	18	18
340	0	0.0%	4	3.2%	42	42
384	5	9.6%	15	9.6%	51	52
387	0	0.0%	1	1.0%	33	33
396	0	0.0%	0	0.0%	9	9
397	0	0.0%	0	0.0%	12	12
485	1	2.0%	3	2.0%	48	49
488	0	0.0%	0	0.0%	19	19
499	1	3.6%	3	3.6%	29	28
504	0	0.0%	1	1.7%	20	20
524	2	3.4%	9	5.1%	60	59
525	10	21.7%	4	2.9%	46	46
626	0	0.0%	0	0.0%	34	34
A Totals	19	4.5%	40	3.2%	421	421
Columbus B						
259	0	0.0%	0	0.0%	27	27
437	0	0.0%	0	0.0%	20	19
438	2	12.5%	0	0.0%	16	16
452	0	0.0%	2	1.1%	62	59
484	2	5.1%	3	2.6%	38	39
495	1	2.6%	3	2.6%	40	39
627	1	2.7%	3	2.7%	38	37
657	0	0.0%	1	0.5%	75	72
B Totals	6	1.9%	12	1.3%	316	308
A & B Totals	25		52		737	729
Total Equipment		729				
Percentage Exception		3.4%				
Percentage Variance		2.4%				

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

As illustrated in **Charts 6a** and **6b**, the Columbus District exception and variance error rates have steadily decreased from rates that initially were among the highest in Ohio. There was a slight increase in the overall exception error rate due to errors in Columbus A that accounted for 76.0 percent of the overall exceptions in the District. Despite the slight uptick in exception errors, due in part to a change in management in the one section area, Columbus had section and overall accuracy that were within the targeted range of 95 percent. Therefore, Columbus B, and possibly Columbus A, should be considered for cyclical counts next year.

Zanesville

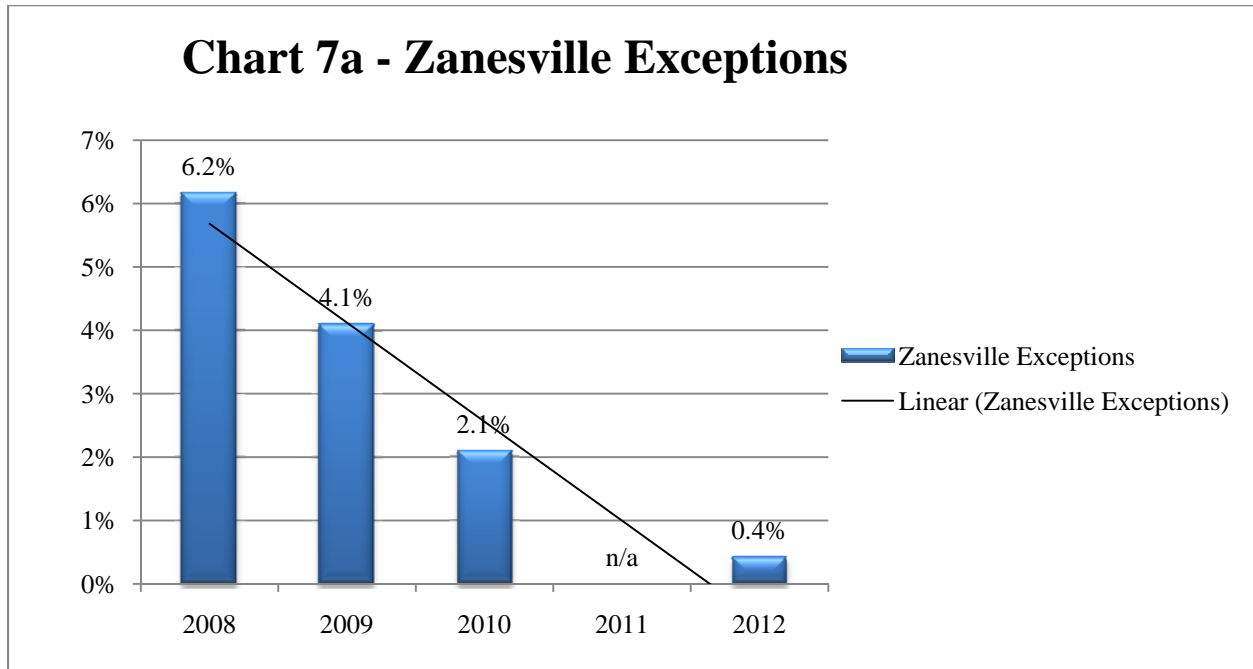
District 5 covers east central Ohio and includes facilities to the north and south of Interstate 70 as well as inside and outside the Columbus area. Of 16 facilities in the District, only 9 were selected to be audited. The exceptions and variances noted in District 5 are illustrated in **Tables 6** and **Chart 7a** and **7b**.

Table 6: District 5 Zanesville, 2012 Exceptions and Variances by Facility

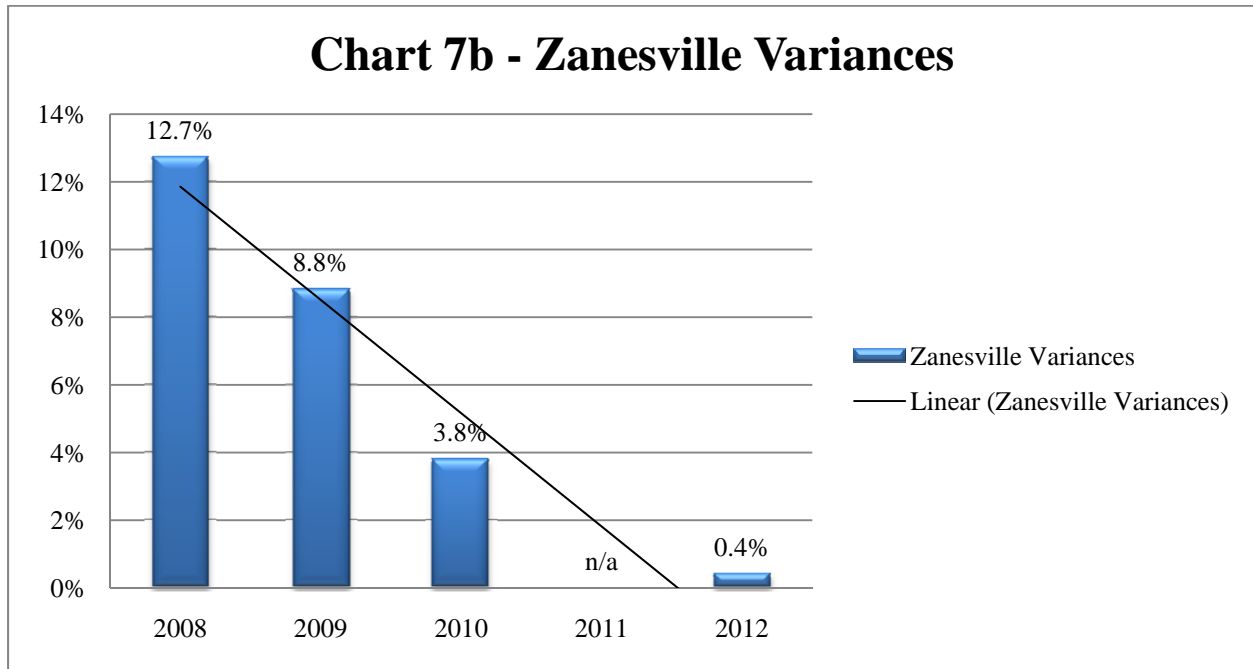
Facility Number	Exceptions		Variances		BEAMS	AOS
414	0	0.0%	0	0.0%	30	30
415	0	0.0%	0	0.0%	36	36
482	0	0.0%	1	1.0%	35	35
487	0	0.0%	1	0.8%	40	40
491	0	0.0%	0	0.0%	22	22
515	0	0.0%	0	0.0%	9	9
530	0	0.0%	0	0.0%	25	25
623	0	0.0%	0	0.0%	31	31
712	1	12.5%	1	4.2%	8	8
Totals	1		3		236	236
Total Equipment		236				
Percentage Exception		0.4%				
Percentage Variance		0.4%				

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

As shown in **Charts 7a** and **7b**, the Zanesville District was not audited in 2011 due to past improvements. In 2012, the exceptions and variances had decreased significantly and were well below the 5 percent benchmark. The noteworthy results supported continuing to use the cyclical inventory approach in the future for the Zanesville District.

Akron

The Akron District covers northeastern Ohio, comprising 10 facilities around the Akron area. The District is managed by one specialist. Due to past performance, the District is now being audited only on a cyclical basis, and the District was not selected for audit in 2012.

Cleveland

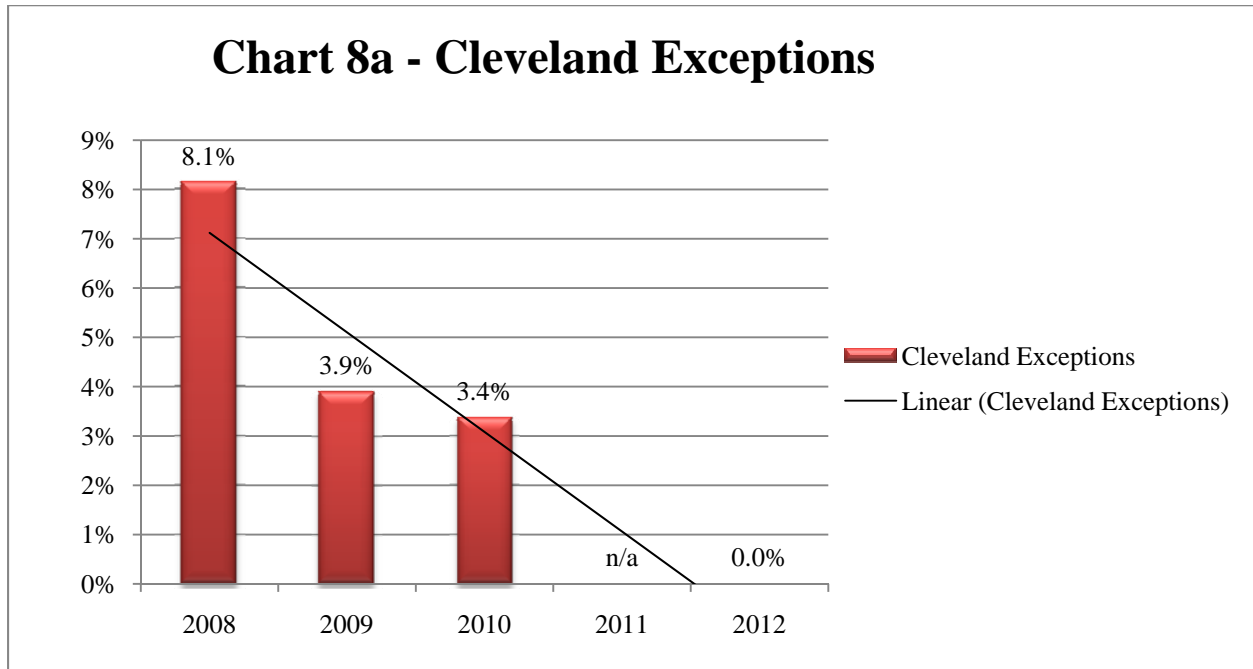
District 7, comprising 13 facilities, covers Cleveland and northeastern portions of Ohio. The District was consolidated in 2010 and is now managed by one specialist. Although the District was initially designated as on a cyclical inventory cycle, one new facility was included in the audit. The exceptions and variances noted in District 7 are illustrated in **Tables 7** and **Charts 8a** and **8b**.

Table 7: District 7 Cleveland, 2012 Exceptions and Variances by Facility

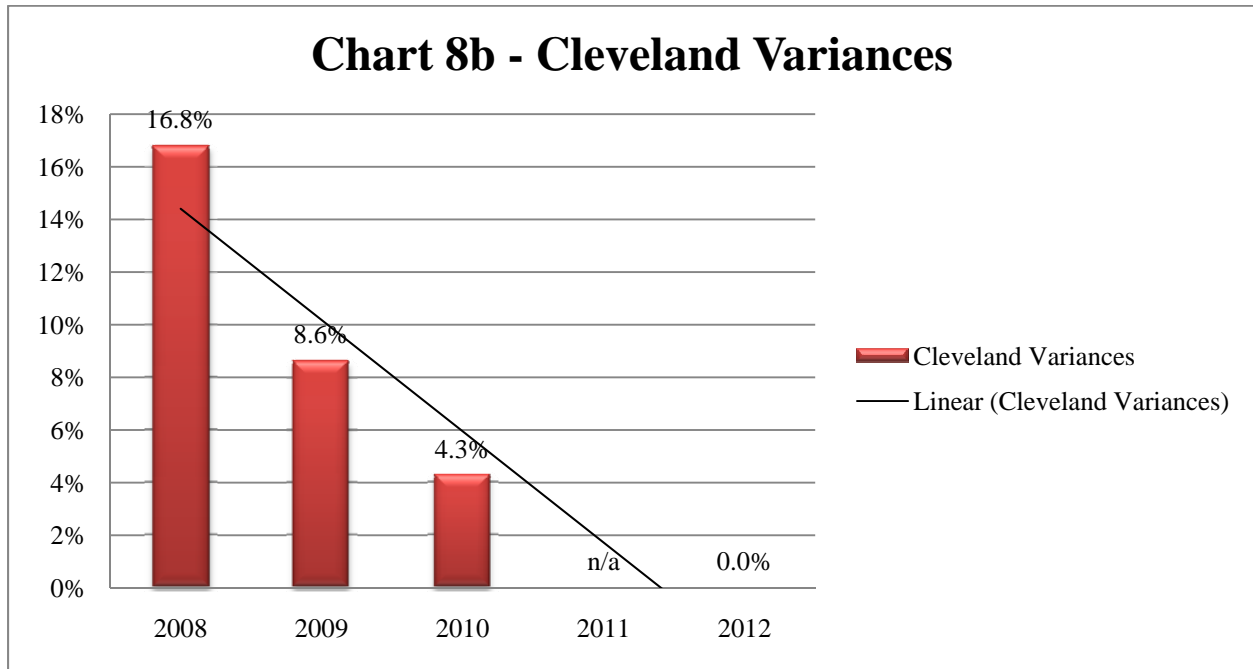
Facility Number	Exceptions		Variances		BEAMS	AOS
711	0	0.0%	0	0.0%	5	5
Totals	0		0		5	5
Total Equipment	5					
Percentage Exception	0.0%					
Percentage Variance	0.0%					

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

Charts 8a and **8b** demonstrated the significant improvements from the initial start of the inventory audits. In 2011, audits were not performed for the Cleveland District, as indicated on the table. The single facility audited in 2012 had no exceptions or variances. Although the District has achieved targeted accuracy benchmarks in the past, cyclical inventory audits should be performed on a few selected facilities in the future to test continued performance.

Equipment Storage

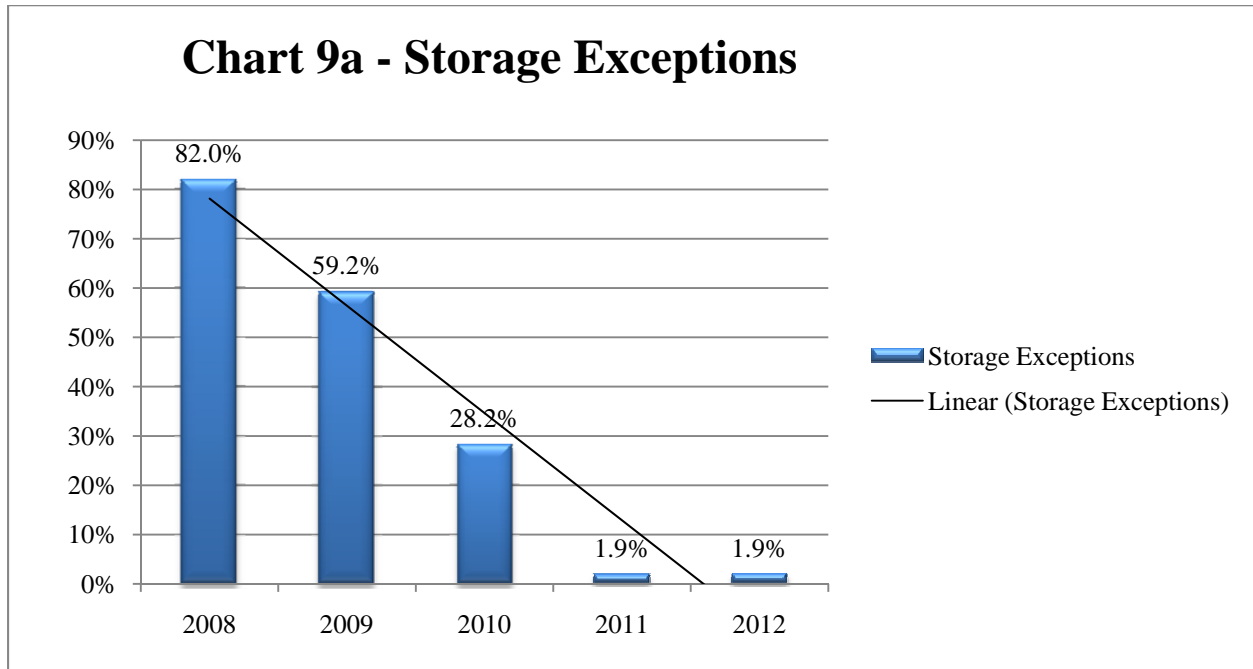
Storage of BEP equipment was consolidated into one location during 2009. The centralized storage approach has increased management control over the equipment. The exceptions and variances noted in the inventory audit of Facility 687 are represented in **Table 8** and **Charts 9a** and **9b**.

Table 8: Equipment Storage, 2012 Exceptions and Variances by Facility

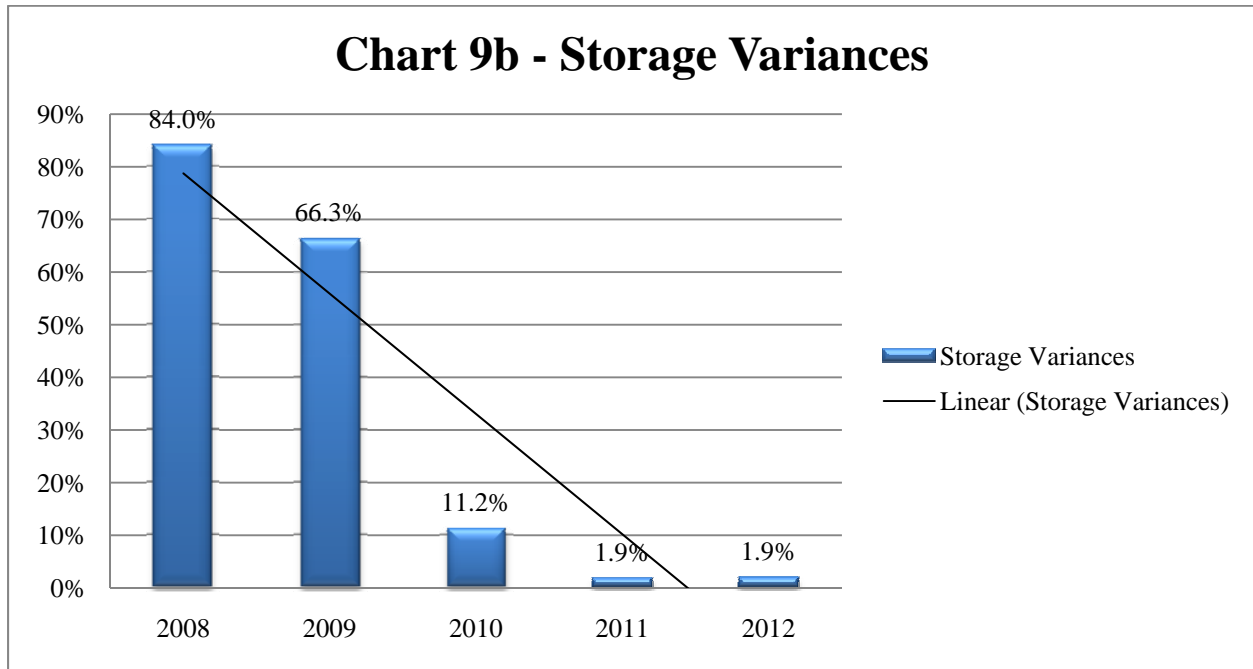
Facility Number	Exceptions		Variances		BEAMS	AOS
687	2	1.9%	6	1.9%	105	103
Totals	2		6		105	103
Total Equipment	103					
Percentage Exception	1.9%					
Percentage Variance	1.9%					

Source: AOS inventory audit data and BEAMS

Note: Exceptions and variance percentages calculated divided by total AOS identified equipment. Variance percentage includes (3x) factor to adjust for multiple criteria reviewed.



Source: AOS inventory audit data



Source: AOS inventory audit data

As illustrated in **Charts 9a** and **9b**, the accuracy rates for the storage of equipment for BEP have improved significantly over the last five years. Facility 687 is now used by BEP as a consolidated storage facility, and was based on the Auditor of State's 2008 audit recommendation to centralize the storage function. The 2008 audit of the storage facilities identified the lack of centralization as a challenge to maintain control and one of the reasons contributing to error rates of 82 and 84 percent, respectively, for exceptions and variances on the stored equipment. Centralizing and continued improvement of inventory management and operational organization has contributed to a consistent accuracy that is now above 98 percent, exceeding the recommended target of 95 percent. Improvements reflect continued refinement in the procedures for accepting new equipment, for moving equipment throughout the organization's facilities, and for disposing and tracking salvaged equipment. The storage facility would be appropriate for cyclical counts in future years.

Recommendation Status

2008-1. BEP should follow the policies and procedures established by the Ohio Department of Administrative Services (DAS) in the State of Ohio Asset Management Policies and Procedures as authorized by ORC § 125.16 and DAS Directive No. 06-27. In particular, the *Physical Inventories* section provides guidance on general physical inventory procedures, including reconciling changes and exceptions; segregation of duties; and asset retirement.

This recommendation has been implemented and performance monitoring is ongoing. As shown in **Table 1**, the inventory exception percentage at all the vending facilities statewide was 4.9 percent in 2011 down from 14.3 percent in 2008. In 2012, the total exception percentage for the selected facilities audited was 2.6 percent. The total exception percentage for all equipment in storage facilities was 82.0 percent in 2008. In 2012, the exception percentage was recorded as 1.9 percent. BEP's ongoing effort to follow and implement the recommended ORC and DAS procedures to manage inventory is reflected in the improvement in exceptions.

BEP continues to experience challenges in inventory improvements, such as the ongoing growth of the equipment inventory, the movement of existing equipment and the removal and elimination of salvage equipment that can no longer be used. Inventory control also is weakened by the limited amount of training and education historically provided to specialists on inventory management and proper control procedures. BEP has enlisted the services of AOS to help train specialists in inventory control and identify opportunities for improvement for specialists during statewide trainings. In 2012, the AOS provided information on the results of the audit and engaged specialists in inventory control improvement discussions. Specialists expressed interest in studying the issue and created a task force to explore challenges and ideas for control improvement.

2008-2. BEP should establish an inventory schedule that includes both wall-to-wall and cyclical physical inventory counts, using a minimum accuracy measure of 95 percent as a performance goal. In addition, BEP should consider the use of a barcode system to track and maintain its asset inventory.

This recommendation has been partially implemented. Results of the 2010 inventory by district showed significant improvements in the accuracy of the equipment inventory during the prior three year period. As a result, the districts in **Table 9** were considered for eligibility for a revised approach to the wall-to-wall inventory. **Table 9** summarizes the exceptions and variances for the districts that reached the minimum accuracy benchmark district-wide in 2010.

Table 9: Districts with Accuracy Exceeding 95 Percent

District	Exceptions	Variances
Cincinnati A	4.9%	n/a
Cincinnati B	0.9%	2.3%
Dayton	4.4%	n/a
Toledo	0.5%	3.6%
Columbus A	4.5%	3.2%
Columbus B	1.9%	1.3%
Zanesville	0.4%	0.4%
Akron	n/a	n/a
Cleveland ²	0.0%	0.0%

Source: AOS inventory audit

Note: Percentage exceptions/variances calculated using exceptions and variances divided by total equipment. Percentages rounded for purposes of this table.

¹ Akron did not have an audit in 2012. In 2011, rates were 1.0 and 4.7 percent for exceptions and variances, respectively.

² Cleveland had only one facility audited in 2012 with no errors identified in either category. In 2010, rates were 3.4 and 4.3 percent for exceptions and variances, respectively.

These districts reflect improved inventory controls exceeding the target of 95 percent. BEP should incorporate the progress indicated in these results when planning the necessary frequency of future inventory procedures on these districts.

Government Accounting Office (GAO) in 2002, “Best Practice in Achieving Consistent Accurate Physical Counts of Inventory and Related Property” (GAO-02-447G Best Practices in Inventory Counts) identified key factors that, as a result of management commitment, enable agencies to achieve consistent and accurate counts of physical inventory regardless of the approach chosen. These factors include the following:

- Establish accountability;
- Establish written policies;
- Select an approach;
- Determine the frequency of counts;
- Maintain segregation of duties;
- Enlist knowledgeable staff;
- Provide adequate supervision;
- Perform blind counts;
- Ensure completeness of counts;
- Execute physical counts;
- Perform research; and
- Evaluate count results.

Each of these attributes has characteristics that help organizations achieve accurate and consistent results.

2008-3. RSC/BEP should review current position responsibilities to ensure appropriate segregation of duties concerning asset management. RSC/BEP should also use the position responsibilities and evaluation processes to improve its inventory management processes and complete the inventory process in three months, in accordance with the Business Enterprise Operations Manual. Thorough planning and monitoring of the inventory results are key mechanisms that offer an opportunity to gauge the inventory accuracy improvement and adapt these processes to meet to needs of the business operators. However, using the inventory counts and accuracy ratings would also help RSC/BEP better hold specialists accountable for the inventory under their stewardship.

This recommendation has been implemented. RSC/BEP completed the revision of the Administrative Rules through the Ohio General Assembly's Joint Committee on Agency Rule Review (JCARR), which included, but were not limited to, the review of staff responsibilities and agency oversight. These rules were adopted and confirmed through the agency and JCARR. The newly adopted rules are posted on the register of Ohio website.

2008-4. RSC/BEP should revise the BEAMS asset disposition codes to mirror the codes listed in the Business Enterprise Operations Manual. The list of 26 possible disposition codes noted in the manual is consistent with the information used for asset disposition in the Statewide Facility Asset Management System (FAMS). Using more specific disposition codes would give RSC more discretion in describing the reason for the disposition of State-owned assets and better ensure the final disposition of assets is accurately recorded.

Implementation for this recommendation is ongoing. BEP has added disposition codes for salvage disposal to its disposal process.

2009-1. BEP staff responsible for recording assets in BEAMS should attend OAKS asset management training offered by the Ohio Department of Administrative Services.

Implementation for this recommendation is ongoing. BEP is considering the use of alternative asset disposition codes for disposal of salvage, obsolescent, or non-working equipment. The asset disposition codes being added to the existing system enables the specialist and management to communicate equipment disposal status more succinctly. In addition, staff attended training and are considering the efficacy of changing from the BEAMS legacy system to the FAMS asset management system. AOS recognizes the systemic difficulties with migrating from an existing asset management system to a new system, and the learning curve associated with the changeover.

Client Response

The letter that follows is RSC's official response to the performance audit. Throughout the audit process, staff met BEP administrators to ensure substantial agreement on the factual information presented in the report. When the Program administrators disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.



John R. Kasich
Governor
Kevin L. Miller
Executive Director

Rehabilitation Services Commission

Bureau of Services for the Visually Impaired
Bureau of Vocational Rehabilitation
Division of Disability Determination

October 18, 2012

Dave Yost
Auditor of State
88 East Broad Street, 5th Floor
Columbus, Ohio 43215

RE: ORSC State Fiscal Year (SFY) 2012 Audit

Dear Auditor Yost:

The Ohio Rehabilitation Services Commission (ORSC) appreciates the Auditor of State engagement during SFY 2012 to audit the ORSC, Business Enterprise Program (BEP) physical asset inventory of equipment used for the purpose of operating BEP businesses.

The request by ORSC for the audit provides the BEP with an independent physical count of all BEP equipment and compares the count with the existing inventory. In an effort to increase the efficiency and accountability of the BEP, the audit and recommendations derived from the audit will assist the program in meeting these initiatives.

The BEP agrees with the recommendation within the audit and plans to address it as soon as possible. In addition, each of the prior recommendations remains priority processes. Several initiatives have already begun which will further help the BEP maximize our efforts to increase accountability with regard to our equipment inventory. BEP has included the recommendations as well as steps underway from the final report.

Again, ORSC appreciates your earnest public service.

Sincerely,

Kevin L. Miller
Executive Director
Ohio Rehabilitation Services Commission

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Dave Yost • Auditor of State

OHIO REHABILITATION SERVICE COMMISSION BUSINESS ENTERPRISE PROGRAM

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2012**