Mary Taylor, CPA
Auditor of State

ORSC Business Enterprise Program Performance Audit

December 9, 2008

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

In response to a request for assistance from the Ohio Rehabilitation Services Commission (ORSC), 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 BEPs' physical asset inventory and asset management practices for the Program's services to visually impaired operators.

The performance audit contains recommendations which, if implemented, would provide operational improvements over physical asset management while enhancing efficiency and effectiveness. Although the recommendations contained in the audit report are resources intended to assist in improving operations within the Program, ORSC is also encouraged to assess its operations and develop alternative strategies independent of the performance audit. This report has been provided to ORSC 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.

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.

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.auditor.state.oh.us/ by choosing the "Audit Search" option.

Sincerely,

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 9, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

INVENTORY MANAGEMENT

Business Enterprise Program

The Ohio Rehabilitation Services Commission (ORSC) provides vocational rehabilitation services to eligible Ohioans with disabilities who seek employment. In particular, the Business Enterprise Program (BEP or Program) provides people who are legally blind with employment opportunities as managers and operators of foodservice and vending facilities.

Objectives, Scope and Methodology

On February 4, 2008, ORSC engaged the Auditor of State's Office (AOS) to audit its physical asset inventory of the equipment owned by ORSC for the purposes of operating the BEP. This audit 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 ORSC.

The scope of the audit included conducting a physical count of all BEP program equipment and comparing it to the existing inventory. Furthermore, processes and procedures related to inventory and equipment management were evaluated. Due to the limited scope of the audit, the cost-benefit relationship of implementing the recommendations was not assessed.

Ohio Administrative Code (OAC) 3304:1-21-05 describes equipment used for the Business Enterprise Program as owned by the Ohio Rehabilitation Services Commission Bureau of Services for the Visually Impaired. Equipment includes any item with a depreciable life of one year or more. The OAC also describes the authority and responsibility of the Bureau of Services for the Visually Impaired and its employees. OAC 3340:1-21-11(D)(7) requires the BEP supervisor/specialist to "perform an annual performance appraisal, an annual equipment inventory, an annual records review, an annual budget projection, and such facility visits as required to document management and operational deficiencies and to support plans of corrective action." OAC 3340:1-21-11(D)(9) requires the BEP supervisor/specialist to, "ensure that all facility equipment is maintained in good repair and an attractive condition; and conduct an annual physical inventory of equipment between April and June of each year." These OAC requirements complement the Code of Federal Regulations (CFR) 34 Chapter III SS 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 ORSC's Business Enterprise Asset Management Software (BEAMS) and made site visits to every

facility. At each facility, auditors verified and documented the on-site inventory and, where appropriate, recorded discrepancies between physical assets and the information maintained in BEAMS.

These discrepancies were categorized as exceptions[1] 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 (about $12.8 million), 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. Also, the report contains recommendations which represent matters for which improvements in compliance or internal controls or operational efficiencies might be achieved. Overall, auditors identified that loose controls over inventory and a highly decentralized inventory management process were the primary contributing factors to the exceptions and variances noted in the audit.

Summary Report of Active Facility Inventories

The following tables document the results of the audit of BEP's physical asset inventory and illustrate the discrepancies and differences in the physical assets and the BEAMS inventory report. At the time of the audit, BEP comprised 114 facilities manned by 106 operators and managed by 9 supervisors, which were organized into 7 districts. **Table 1** illustrates the exceptions and variances by District.

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[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. In addition, if the equipment was listed on the BEAMS active equipment report and was not found in the facility, 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 model number.

Table 1: Exception and Variance Summary by District

District/Major City		Exceptions		Variances	
		No. Exceptions	% Exceptions	No. Variances	% Variances
District 1	Cincinnati	**171**	**26%**	**576**	**29%**
District 2	Dayton	**47**	**10%**	**260**	**19%**
District 3	Toledo	**14**	**4%**	**72**	**8%**
District 4	Columbus A	**109**	**24%**	**495**	**37%**
	Columbus B	**70**	**16%**	**315**	**24%**
	Columbus C	**29**	**10%**	**142**	**16%**
District 5	Zanesville	**21**	**6%**	**130**	**13%**
District 6	Akron	**68**	**16%**	**266**	**20%**
District 7	Cleveland A	**39**	**10%**	**251**	**22%**
	Cleveland B	**23**	**6%**	**133**	**12%**
	Total Exceptions		**591**	**Total Variances**	**2,640**
	Total Equipment		**4,140**	**Possible Variances**	**12,420**
	Mean % Exception		**14%**	**Mean % Variance**	**21%**

Note: Percentage Exception and Variance calculated using exceptions and variances divided by total equipment units, see **Tables 2-11.**

Statewide, AOS identified variances in 21 percent of the equipment in BEAMS. Approximately 14 percent of the equipment did not have an asset tag with a number that matched the asset number recorded in BEAMS for the particular site. In most instances, the serial numbers for assets were truncated when entered into BEAMS. Although BEP representatives explained that this was a common process, the procedure and standard for truncating serial numbers was not formalized and the process was haphazard with varying methods being used across the State.

Table 2 shows exceptions and variances for District 1, which encompasses the south, southeastern, and southwestern portions of the State and includes 23 separate facilities.

Table 2: District 1 Cincinnati Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
419	21	21	4	19%	23	37%
431	9	9	0	0%	6	22%
430	10	10	3	30%	9	30%
433	14	16	1	6%	8	17%
432	16	18	5	28%	10	19%
369	9	9	2	22%	6	22%
232	39	39	1	3%	14	12%
169	53	61	17	28%	27	15%
168	13	15	5	33%	7	16%
50	16	17	0	0%	7	14%
45	17	17	0	0%	0	0%
506	19	28	11	39%	40	48%
496	26	33	8	24%	28	28%
490	19	28	14	50%	29	35%
489	22	30	2	7%	28	31%
466	17	33	8	24%	34	34%
409	18	21	9	43%	43	68%
408	43	46	13	28%	64	46%
375	24	36	16	44%	33	31%
323	31	38	7	18%	39	34%
317	37	46	16	35%	46	33%
156	34	40	12	30%	38	32%
49	28	45	17	38%	37	27%
Totals	535	656	171		576	
Total Exceptions/Variances			**171**		**576**	
Total Equipment			**656**		**1,968**	
Percent Exceptions/Variances			**26%**		**29%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

In District 1, exceptions and variances exceed 25 percent. During the engagement, the District was being restructured and BEP did not have a full-time specialist assigned. The application of part-time oversight, coupled with prior problems in the management of the District, contributed to the poor quality of inventory information maintained for this District.

District 2 covers the western portion of central Ohio, which includes 15 separate facilities. The results of the physical asset review for District 2 are illustrated in **Table 3**.

Table 3: District 2 Dayton Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
261	35	37	5	14%	22	20%
296	31	35	4	11%	23	22%
318	34	34	3	9%	11	11%
347	27	28	4	14%	8	10%
424	43	48	8	17%	39	27%
425	22	22	1	5%	10	15%
439	8	8	1	13%	4	17%
440	13	13	2	15%	9	23%
444	15	15	1	7%	9	20%
447	11	11	1	9%	4	12%
448	9	9	1	11%	5	19%
502	58	68	12	18%	74	36%
507	2	2	0	0%	1	17%
531	35	38	3	8%	29	25%
538	84	84	1	1%	12	5%
Totals	**427**	**452**	**47**		**260**	
Total Exceptions/Variances			**47**		**260**	
Total Equipment			**452**		**1,356**	
Percent Exceptions/Variances			**10%**		**19%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

As shown in **Table 3**, the exceptions for District 2 are 10 percent, which is 4 percent below the average exceptions reported statewide. The variances were approximately 19 percent, which is slightly below the 21 percent mean of the variances Statewide. Only three districts reported fewer exceptions as a percent of the total equipment than District 2.

District 3 covers the northwestern portion of Ohio and includes eight separate facilities. The exceptions and variances noted in District 3 are illustrated in **Table 4.**

Table 4: District 3 Toledo Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
161	53	54	10	19%	32	20%
304	88	88	2	2%	8	3%
344	22	22	0	0%	0	0%
370	48	52	2	4%	15	10%
445	12	15	0	0%	6	13%
449	38	41	0	0%	7	6%
450	11	11	0	0%	1	3%
483	28	29	0	0%	3	3%
Totals	**300**	**312**	**14**		**72**	
Total Exceptions/Variances			**14**		**72**	
Total Equipment			**312**		**936**	
Percent Exceptions/Variances			**4%**		**8%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

As shown in **Table 4**, the exceptions for District 3 are 4 percent, which is the lowest of any district in the State. District 3 also had the lowest percentage of variances Statewide, approximately 8 percent.

District 4 covers Columbus and central Ohio and is managed by three different specialists. Columbus A includes 10 separate facilities and is shown in **Table 5**. Columbus B includes 10 separate facilities and is shown in **Table 6**. Columbus C includes 11 separate facilities and is shown in **Table 7**.

Table 5: District 4 Columbus A, Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
332	27	35	8	23%	38	36%
340	23	41	6	15%	59	48%
384	82	115	36	31%	162	47%
387	22	27	13	48%	35	43%
412	42	51	22	43%	88	58%
524	47	56	10	18%	44	26%
525	45	47	3	6%	20	14%
626	21	29	6	21%	23	26%
665	17	22	5	23%	22	33%
627	23	24	0	0%	4	6%
Totals	**349**	**447**	**109**		**495**	
Total Exceptions/Variances			**109**		**495**	
Total Equipment			**447**		**1,341**	
Percent Exceptions/Variances			**24%**		**37%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 6: District 4 Columbus B, Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variance
452	87	108	21	19%	116	36%
661	54	66	11	17%	51	26%
657	54	58	6	10%	41	24%
526	31	31	6	19%	20	22%
504	27	27	2	7%	12	15%
499	27	28	3	11%	18	21%
495	21	22	5	23%	8	12%
488	23	23	1	4%	7	10%
484	50	56	9	16%	35	21%
245	21	22	6	27%	7	11%
Totals	**395**	**441**	**70**		**315**	
Total Exceptions/Variances			**70**		**315**	
Total Equipment			**441**		**1,323**	
Percent Exceptions/Variances			**16%**		**24%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 7: District 4 Columbus C, Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
623	28	31	4	13%	12	13%
530	18	20	3	15%	19	32%
397	14	14	2	14%	6	14%
396	7	7	0	0%	0	0%
491	22	25	6	24%	25	33%
259	23	26	3	12%	14	18%
404	45	46	2	4%	12	9%
437	16	16	2	13%	6	13%
438	17	17	0	0%	3	6%
487	37	43	5	12%	36	28%
511	48	49	2	4%	9	6%
Totals	**275**	**294**	**29**		**142**	
Total Exceptions/Variances			**29**		**142**	
Total Equipment			**294**		**882**	
Percent Exceptions/Variances			**10%**		**16%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Tables 5, 6, and **7** show that the facilities in District 4 all exceeded 10 percent in exceptions. Columbus C has the best scores when compared to Columbus A or Columbus B, but the examination revealed that a high percentage of inventory was tagged or recorded incorrectly. Variances ranged from 16 percent to 37 percent, depending on the facility, which places the Columbus facilities in the category of "higher than average" as it relates to percentages of exceptions and variances.

District 5 covers eastern Ohio, including facilities to the north and south of Interstate 70 and outside the Columbus area, and is overseen by one specialist. The District comprises eight facilities and the results of the inventory are recorded in **Table 8**.

Table 8: District 5 Zanesville Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
414	93	94	5	5%	44	16%
415	51	51	3	6%	21	14%
481	49	49	8	16%	24	16%
482	36	37	2	5%	13	12%
514	13	13	0	0%	1	3%
515	17	17	1	6%	2	4%
518	15	15	0	0%	0	0%
523	59	64	2	3%	25	13%
Totals	**333**	**340**	**21**		**130**	
Total Exceptions/Variances			**21**		**130**	
Total Equipment			**340**		**1,020**	
Percent Exceptions/Variances			**6%**		**13%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 8 shows that the exceptions for District 5 are the second lowest for any district in the State and 8 percent below the statewide average for exceptions. These results suggest that the specialist in District 5 is maintaining inventory controls that more accurately reflect the equipment inventory in this district. However, the variance percentage is 13 percent, which indicates a potential area for improvement.

District 6 covers northeastern Ohio, including 12 facilities around the Akron area, and is managed by one specialist. The District comprises eight facilities and the results of the inventory are shown in **Table 9**.

Table 9: District 6 Akron Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
80	43	45	5	11%	15	11%
145	82	97	16	16%	72	25%
234	23	24	2	8%	10	14%
293	76	82	27	33%	93	38%
359	11	11	0	0%	0	0%
372	33	33	2	6%	6	6%
374	38	41	3	7%	17	14%
441	18	20	1	5%	7	12%
442	28	30	3	10%	13	14%
478	18	21	7	33%	22	35%
532	17	20	2	10%	9	15%
541	12	13	0	0%	2	5%
Totals	**399**	**437**	**68**		**266**	
Total Exceptions/Variances			**68**		**266**	
Total Equipment			**437**		**1,311**	
Percent Exceptions/Variances			**16%**		**20%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 9 shows that the exceptions and variances for District 6 exceed the average exceptions Statewide of 14 percent, but are below the average variances of 21 percent. One specialist maintains the facilities in the District and, during the course of the engagement, assisted the District 1 supervisor for the Cincinnati area.

District 7 covers the most northern facilities in the State, including those in the greater Cleveland area. This District is overseen by two specialists. Cleveland A includes eight separate facilities and is illustrated in **Table 10**. Cleveland B also includes eight separate facilities and is illustrated in **Table 11**.

Table 10: District 7 Cleveland A, Exception and Variance Summary by Facility

Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
426	49	50	0	0%	20	13%
413	49	56	15	27%	42	25%
257	20	22	5	23%	14	21%
208	76	79	3	4%	45	19%
198	15	17	1	6%	27	53%
113	23	23	2	9%	17	25%
61	25	25	5	20%	39	52%
26	99	104	8	8%	47	15%
Totals	**356**	**376**	**39**		**251**	
Total Exceptions/Variances			**39**		**251**	
Total Equipment			**376**		**1,128**	
Percent Exceptions/Variances			**10%**		**22%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 11: District 7 Cleveland B, Exception and Variance Summary by Facility

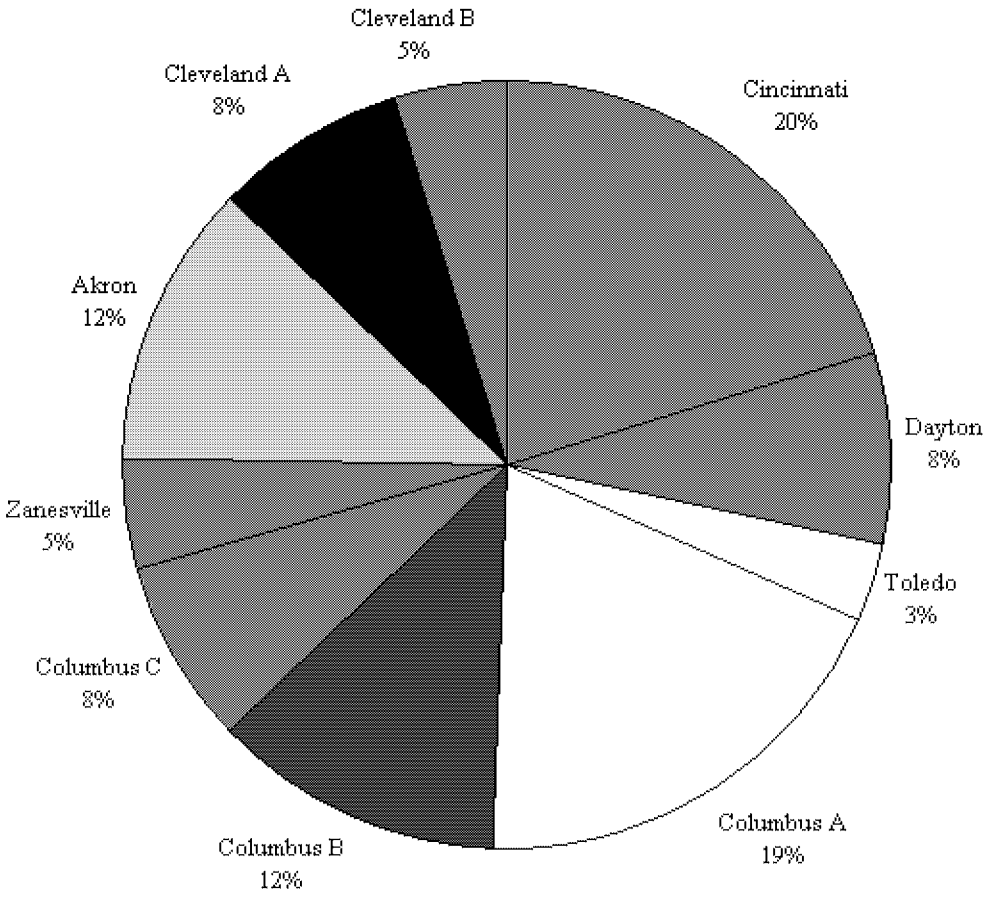
Facility	Equipment Count BEAMS	Equipment Count AOS	Exceptions	Percent Exceptions	Variances	Percent Variances
403	42	51	3	6%	27	18%
398	34	36	5	14%	24	22%
364	113	114	7	6%	22	6%
353	85	90	7	8%	48	18%
276	39	41	0	0%	7	6%
250	12	12	0	0%	0	0%
191	14	15	0	0%	2	4%
87	26	26	1	4%	3	4%
Totals	**365**	**385**	**23**		**133**	
Total Exceptions/Variances			**23**		**133**	
Total Equipment			**385**		**1,155**	
Percent Exceptions/Variances			**6%**		**12%**	

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Tables 10 and **11** show that District 7 has exception scores that are 8 percentage points below the average number of exceptions reported Statewide. On average, its percentage of variances is also below the State average, although there is a high degree of disparity between the sites. Cleveland B outperforms Cleveland A by almost a two to one margin of accuracy, although Cleveland A only slightly exceeds the State average exceptions and variances.

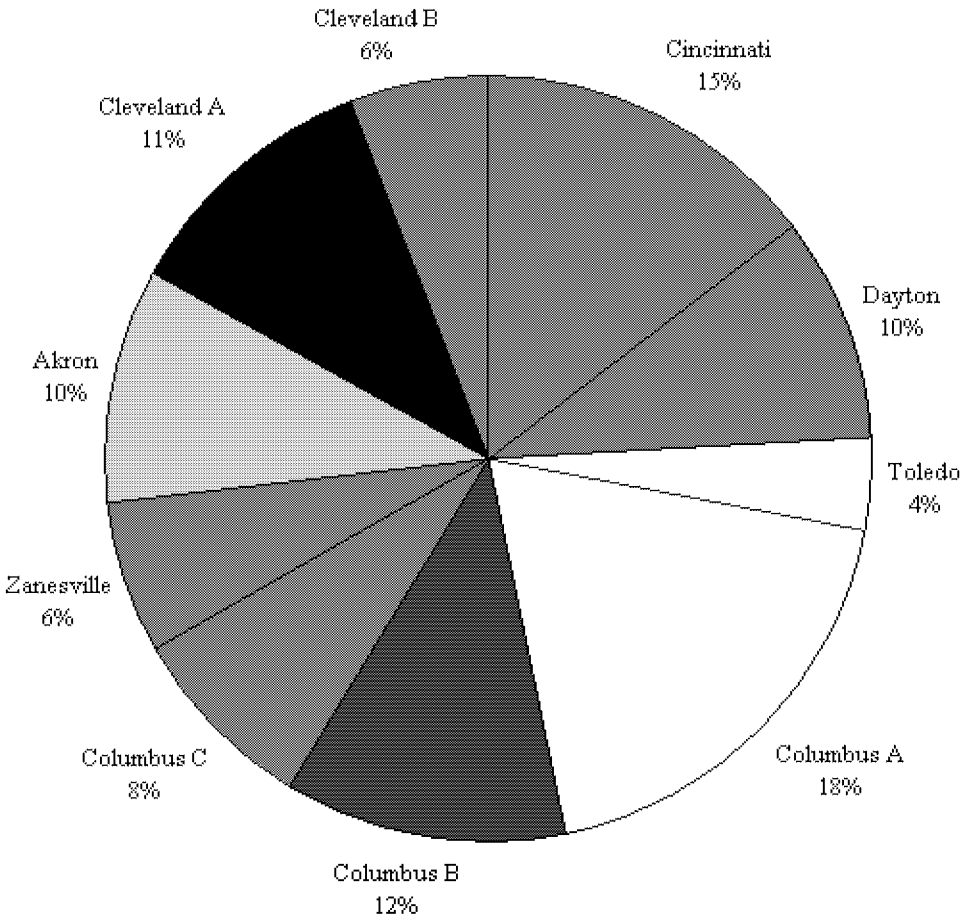
The following charts illustrate, by District, the percentage of overall exceptions and variances. **Chart 1** is the Exception Summary and **Chart 2** is the Variance Summary.

Chart 1: Exception Summary



Source: AOS

Chart 2: Variance Summary



Source: AOS

Summary of Storage Inventory Analysis

BEP maintains storage inventories of equipment at four central storage sites.[3] However, it plans a reduction in the number of storage facilities until it maintains only one site. In addition, BEP works with equipment distributors (Distributor) that repair, warehouse, and ship equipment as needed. Finally, the Dayton District headquarters (D2 HQ) stores some equipment when space is available. The storage sites are as follows:

- **991: Cincinnati Area Storage** (Predominantly housed at a Distributor's facility in Waynesville, although some minor equipment is stored at a Cincinnati District site);
- **992: Dayton Area Storage** (Predominantly housed at a Distributor's facility in Waynesville, although some minor equipment is stored at the Dayton HQ site);
- **993: Toledo Area Storage** (Predominantly housed at a Distributor's facility in Waynesville, although some minor equipment is stored at a Distributor's facility);
- **994: Columbus Area Storage** (Stored at a Distributor's site);
- **996: Akron Area Storage** (Predominantly stored at a Distributor's facility, although some minor equipment is stored at the BSVI Office); and
- **997: Cleveland Area Storage** (BEAMS shows a small number of items predominantly stored at a Distributor's facility, although some minor equipment is stored at the BSVI Office. According to the Cleveland specialist, no equipment is stored in Cleveland at this time).[4]

AOS conducted onsite inventories at each of the storage facilities. BEP provided BEAMS inventory reports for all the storage facilities that included active equipment, as well as all other equipment still in the inventory system but not categorized as active. While some equipment at the sites was recorded, labeled, and tagged according to BEP policies and procedures, a significant number of assets were untagged or the tag was incorrect. Equipment that did not meet BEP tagging procedures was documented and this documentation was provided to BEP so that the program managers can evaluate the inventory and control procedures. This information can be used by BEP to ensure it has the most accurate information available about all the equipment in its storage facilities, including the equipment scheduled for repair, planned for salvage, or to be used for parts. **Table 12** through **Table 14** show the results of this evaluation.

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[3] The facilities used for storage are numbered 991, 992, 993, 994, 996, and 997; however, equipment associated with 991, 992, and 993 are all stored at the Waynesville facility.

[4] No tables or assessments appear in this report for facility 997. Auditors determined that the equipment stored in facility 997 represented an immaterial amount in relation to the total number of items in storage and did not evaluate it as a component of this audit. However, BEP should follow up on the location and disposition of equipment listed as located in facility 997.

Table 12 shows equipment stored in the southern part of the State at the Waynesville Distributor. Although the BEP program was not using centralized storage for its equipment, approximately 56 percent (or 788 pieces) of the equipment is warehoused at the Waynesville facility, as shown in the first portion of the table. "Active equipment only" reported in BEAMS as being located at the Waynesville facility is in the second section of **Table 12**. Finally, Dayton HQ 992 is shown separately in the third section of **Table 12**. In addition, the table shows exception and variance totals for all equipment and active equipment for the Waynesville facility, and for the Dayton HQ only.

Table 12: Facilities 991, 992, and 993 (Waynesville Facility) and Dayton HQ Exceptions and Variances Summary

Facility	Exceptions	Variances
All Stored Equipment (Waynesville Facility)		
Equipment Counts 991,992,993	655	1,997
Total Equipment	788	2,364
Percent Exceptions/Variances	**83%**	**84%**
Active Equipment Only (Waynesville Facility)		
Equipment Counts 991,992,993	89	296
Total Active Equipment	208	624
Percent Exceptions/Variances	**43%**	**47%**
All Equipment Dayton HQ 992		
Equipment Count 992 DHQ	2	3
Total Equipment	5	15
Percent Exceptions/Variances	**40%**	**20%**

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

The exception and variance calculations for all stored equipment exceeded 80 percent. Considering only "active" equipment, the exceptions and variances exceeded 40 percent. These results highlight the need for additional controls in the storage inventory system, particularly in those regions of the State where a majority of the inventory is maintained.

Table 13 provides an illustration of the equipment kept in its Columbus Storage location for storage and/or reconditioning. This includes BEAMS reported equipment for the 994 facility along with the exceptions and variances to the reported amounts.

Table 13: Facility 994 Columbus Storage Exceptions and Variances Summary

Facility	Exceptions	Variances
All Equipment		
Equipment Counts 994	416	1,263
Total Equipment	460	1,380
Percent Exceptions and Variances	**90%**	**92%**
Active Equipment Only		
Active Equipment Counts 994	328	1,000
Total Active Equipment	371	1,113
Percent Exceptions and Variances	**88%**	**90%**

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

Table 13 shows that the exceptions and variances for all the equipment in this facility were approximately 90 percent. This high degree of control failures indicates a strong need to improve the quality and accuracy of the storage inventory in this facility.

Table 14 illustrates the results of the equipment count conducted in the Akron storage facility for warehousing and/or reconditioning. This includes BEAMS reported equipment for the 994 facility along with the exceptions and variances to the reported amounts.

Table 14: Facility 996 Akron Storage Exception and Variances Summary

All Equipment[1]		
Facility	**Exceptions**	**Variances**
Equipment Counts 996	59	183
Total Equipment	124	372
Percent Exceptions and Variances	**48%**	**49%**

Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment.

[1] The difference between all and active equipment at Facility 996 (Akron) was negligible. Therefore, all equipment was used for the analysis.

Although the results of the counts in **Table 14** indicate a lower exception and variance rate than **Table 12** or **Table 13**, exceptions and variances approaching 50 percent indicate a need for improving the storage of equipment process, especially when compared to the active facility mean exception of 14 percent and mean variance of 21 percent (see **Table 1**).

In addition to the equipment reviewed in the facilities, 34 pieces of equipment were identified as BEP machines at a Columbus vending company for reconditioning and/or repair. Seven of the machines did not have appropriate BEP tags and not all of the equipment was located in accordance with the BEAMS inventory system procedures. This equipment is being serviced, sold, or stored at the business which constitutes a "purveyor facility" as described in the Business Enterprise Operations Manual. However, the items at the facility are not documented as "storage equipment" by facility number like the equipment identified in **Tables 12** through **14**.

Recommendations

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.

AOS determined that the average active inventory exception percentage at all the vending facilities statewide was 14 percent. The total exception percentage for all equipment in storage facilities was 81 percent, although the exception percentage for active equipment in storage was 67 percent. This data suggests that the management processes used for inventory of equipment, particularly the equipment maintained in storage, represent a control weakness that BEP should address. Variances are a less critical inventory control failure but reinforce the need for BEP to review and update its policies and procedures for inventory control and then ensure its specialists receive adequate training and oversight.

Accurate and reliable data are essential to an efficient and effective operating environment in agencies of state government. Inventory represents a significant portion of the assets that comprise the BEP. Therefore, managers need to have an accurate, up-to-date inventory in order to make effective budgeting, operating, and financial decisions.

Proper inventory accountability requires that detailed records of inventory be maintained and that this inventory be properly reported in the financial management records and reports. Detailed asset records also help provide for the physical accountability and security of the inventory. The United State General Accounting Office's (GAO) *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* (2002) notes that physical controls and accountability reduce the risk of undetected theft or loss, unexpected shortage of critical items, and unnecessary purchases of items already on hand. These controls improve the visibility and accountability over the inventory, which in turn help ensure continuity of operations, increased productivity, and improved storage and control of excess or obsolete equipment.

AOS found that RSC/BEP lacks complete and reliable information for reported inventory in storage facilities. Although information in the active vending facilities is more accurate than the information available for the storage facilities, the results of the site inventories suggest there is also room for improvement. With the information on exceptions and variances provided by AOS, BEP should reconcile discrepancies identified in its physical inventory to BEAMS. Those items found to be missing, obsolete, or retired should be written off the asset system according to DAS policy and procedures using the level of detail specified by DAS. According to DAS, assets should be retired when they are no longer used in service with State operations, no longer meet reporting criteria/cost thresholds, and/or have been transferred to State surplus.

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.

In selecting an approach to conducting inventory, BEP chose "wall-to-wall" counting of its entire inventory, which is appropriate given circumstances, such as the timing of the count, capabilities of the inventory system, the existing control environment, decentralized management, and the characteristics of the inventory and existing issues. However, the data collected during the course of this audit indicates that the frequency and rigor under which inventory counts is conducted is insufficient to guarantee an accurate physical asset inventory.

Useful strategies to consider when selecting an approach include determining how to identify excess or obsolete inventory, evaluating the capability of the inventory system to maintain equipment records by item location, and evaluating the control environment over the inventory system and processes to ensure that transactions are properly executed and recorded in the inventory system. GAO has identified two primary approaches to counting inventory in seven different companies that it recognizes as using best practices in inventory management. These approaches include *cycle counting*, in which a portion of the inventory is counted over time until all inventory is counted, and *wall-to-wall* counting in which the entire inventory is counted at a given point in time. GAO also identified key factors which, as a result of management commitment, enable agencies to achieve consistent and accurate counts of physical inventory regardless of the approach chosen. These factors are as follows:

- 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.

Establishing accountability includes setting inventory record accuracy goals of 95 percent. This measures the degree to which the physical on-hand balance agrees with the inventory records. Only District 3: Toledo (**Table 4**) had a 4 percent exception (96 percent accuracy) rating. District 7: Cleveland B (**Table 11**) had a 6 percent exception (94 percent accuracy) rating. To improve the accuracy of inventories in its other districts, BEP should set performance goals for accuracy and continuously assesses the progress in achieving and maintaining these goals. It will need to identify the line of authority and responsibility for accomplishing consistent accurate physical counts and then develop employee/supervisor performance measurement systems to hold appropriate personnel accountable for achieving performance goals.

In addition, by increasing the frequency of counts, BEP can improve the controls over the equipment inventory and, as required by the State guidelines, be better prepared to submit an accurate physical assets inventory each year. **Table 15** illustrates a possible schedule for RSC/BEP to consider when conducting its inventory.

Table 15: Inventory Schedule

		Wall-to-Wall Counts						Cycle Count
	Storage	**D1**	**D2**	**D4**	**D5**	**D6**	**D7**	**D3**
April	**991,992**	√	√					√
May	**993, 994**			√	√			
June	**995, 996**					√	√	

In the example shown in **Table 15**, BEP would employ wall-to-wall inventory procedures for six of its districts and all storage facilities. The wall-to-wall inventory process would be required to ensure an improvement in its inventory records. District 3 (Toledo) is shown as conducting a cycle count, as its inventory data was superior to other districts and met the minimum accuracy threshold recommended in this audit. BEP should consider using this type of arrangement on an annual basis and, as districts and storage areas improve their inventory data, move those facilities to a cycle count approach. BEP could then conduct more limited wall-to-wall counts, perhaps on a five or ten year cycle or as district management changes, to ensure the continued accuracy of its physical asset inventory.

RSC/BEP should consider additional factors like weighted selection towards higher dollar and higher activity items, but this example offers an approach to expediting the inventory process and using a narrower period to improve inventory controls. The plan should minimize the amount of time needed to complete the inventory.

BEP should consider the use of a barcode system to track asset inventory. The State of Ohio has issued IT standard ITS-SYS-01, *Bar Code Standards for Automated Systems Used by State of Ohio Government Agencies to Inventory Tangible Personal Property* (December 15, 2006). The purpose of this standard is to ensure the consistent use of bar code technology as it relates to the inventory of State of Ohio assets. According to the standard, "The use of bar code technology

can be a cost-effective means of obtaining fast and accurate inventories so long as uniform standards are in place to ensure compatibility and label uniformity across the State."

In 1989, a joint committee of personnel from DAS and AOS was established to address concerns about incompatible or unauditable inventory systems employing barcode technology. Systems of concern included DAS' Fixed Asset Management System (FAMS) and a selection of in-house asset management systems used by some agencies. The committee's charge was to determine the feasibility and effectiveness of using bar coding technology for inventory control for State agencies. The most recent standards for barcode use, derived from the work of this committee, were issued in 2006.

The standards provide guidelines for the use of barcode systems. Furthermore, under ORC § 125.16, the Office of Asset Management Services within the General Services Division of DAS provides a comprehensive statewide inventory program to agencies to assist them with fulfilling statutory requirements for identifying, maintaining, reporting and certifying inventories consisting of their state owned assets. Asset Management Services provides FAMS access to agencies to assist them with their asset inventory obligations, and provides IT technical support and sponsors ongoing system maintenance.

While BEP currently uses BEAMS, Asset Management Services could help it complete an integration of BEAMS and a bar code system. Using this system would help BEP expedite its reconciliation of physical assets to its inventory records. Furthermore, it would assist the Agency in maintaining more accurate records over the long-term and would potentially reduce the time needed to conduct extensive inventory processes.

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 BE operations Manual. Thorough planning and monitoring 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.

BEP has specialists count inventory in their own districts. It provides an extended time frame of three months to complete the counts. This practice increases the inconsistencies in BEAMS as timing issues, equipment movement, and location reporting discrepancies all contribute to the exceptions and variances noted in the audit. A full inventory, conducted in 2007 for its annual submission to DAS, revealed substantial issues with the BEAMS versus physical count records and prompted BEP to request an audit of its fixed asset inventory.

Segregation of duties, a commonly used and widely accepted internal control and business practice, entails dividing or segregating key duties and responsibilities among different people. Implemented effectively, this type of control reduces risk of error and fraud so that no single individual can adversely affect the accuracy and integrity of the count.

Segregation of duties can be broken down into three categories:

1) Physical custody of the asset,
2) Authority to process and record the transaction from the count, and
3) Authority to approve adjustments from the count.

Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property (GAO, 2002), noted that five out of eight leading edge companies accomplished segregation of duties by using a separate inventory group of dedicated counters with no other responsibilities than to perform the physical count. The other three used mitigating controls to reduce the risk of using regular employees to perform the counts by using employees with no knowledge of or access to the on-hand quantity. Other methods of mitigating risk include having increased supervision and applying dual control, which is having counting activities performed by more than one person. Personnel responsible for the physical custody of the equipment or approval of adjustments to the record should not handle processing of transactions that affect on-hand quantities. Furthermore, leading edge companies have controls in place to manage and limit who has authority to approve adjustments from the counts.

The US Office of Personnel Management describes accountability as being answerable for accomplishing a goal or assignment. Using accountability in a positive manner can help improve performance and employee participation and involvement. Involving employees in the goal setting process and using coaching and monitoring to provide support and feedback on progress are important components of establishing accountability. The Society for Human Resource Management (SHRM) describes the need for front-line managers to use performance management techniques to both provide feedback on a daily basis and to encourage appropriate employee behavior and performance. Enhancing accountability through the use of performance management and tying in goals for inventory accuracy could help BEP strengthen the specialists' oversight of physical assets.

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 that the final disposition of assets is accurately recorded.

According to the BEP representative and the Business Enterprise Operations Manual, disposition codes for BEP assets are limited to three possible choices and do not mirror the FAMS disposition codes. Because of the limited descriptions used in BEAMS to describe asset disposal, the final disposition of equipment is often inaccurately documented. Several items are listed as "missing" or "stolen" because other choices do not exist. FAMS asset retirement codes offer a greater range of disposal descriptions and, when appropriate, provide the agency an opportunity to retain control of their assets for local disposal (OAC 123:5-2-01). **Table 16** shows the disposition codes contained in the Business Enterprise Operations Manual and FAMS.

Table 16: Asset Disposition Codes

Code	Description	Explanation
A	Abandonment to DAS State Surplus	Includes State Surplus conducting auction at state agency location
B	Easement or Lease Expired, or Returned to Sponsor or Vendor	A sponsor loaned an asset to the State of Ohio or a vendor accepts the return of asset in accordance with warranty agreement
C	Destroyed by Natural Disaster or by State of Ohio	Includes demolishing a building, building component, land improvement or infrastructure
D	Sold or Donated to an Entity Other than a State Agency	Includes State supported or State institutions of higher education, tax supported agencies, municipal corporations, school districts or other political subdivisions of State of Ohio
E	Duplicate Asset Record, Invalid Entry or Reclassify Asset Record	For a duplicate record to occur there is another asset record on FAMS or agency in-house asset management system with different but valid asset ID number. Re-classification of asset record entails setting up a new asset record as an Addition using a different asset class and/or type code.
G	Inventory Reporting Criteria (cost reporting threshold)	Asset does not meet the inventory reporting criteria due to change in state or agency policy. Note that inventory label/tag affixed to asset must be removed from asset or ID number permanently marked-out
H	Fixture Remains Attached to Building	Where the lease agreement has terminated
I	Donated or Sold to a Retired State Employee	In accordance with collective bargaining contract language
L	Lost, Missing	Where the asset cannot be found: this category is subject to an investigation by a special physical or upcoming biennial physical inventory. If the asset is found within two fiscal years following the original retirement as code "L," then the asset record must be reactivated to active status. If the asset is found subsequent to the two fiscal year period, then the asset record is set up as an addition.
M	Sold or Donated to another State Agency or another Reporting Entity within the Same Agency.	Note the receiving entity must record asset as an addition on its inventory if the asset meets the cost reporting criteria.
N	Stolen	
P	Recycled	
S	Sold to General Public	By fair and impartial process, such as advertisement by newspaper or Internet
T	Traded	Traded in towards a new asset
U	Disposed as Refuse	Assets are considered worthless and/or useless, such as an asset being cannibalized for parts
V	Licensed Vehicle Record	Entered into DAS' Fleet Ohio System or agency in-house fleet asset management system
W	Active Record - Associated FAMS Transfer History Records	Where the asset record is not valid but cannot be deleted (Applies to FAMS users only.)
X	Construction-In-Progress (CIP)	Where a building is complete and CIP asset records being reclassified as a Building, Land Improvement, or Personal Property (Fixture)
Y	Capital (Fixed) Asset Transferred between Governmental Funded Entity and Proprietary Funded Entity	Asset record is retired by releasing owner agency and added as an addition to the receiving owner agency
Z	Destroyed other than Natural Disaster	Such as vandalism

Note: FAMS retire codes (D, M, P, S, T & U) are used only when agencies are granted permission by DAS State Surplus to retain control of their assets for local disposal in accordance with OAC 123:5-2-01.

While adding disposition codes to BEAMS that are consistent with FAMS will require resources, such as staff time and potentially programming changes, the result will be an improvement in internal controls and management understanding of asset disposition. Furthermore, the codes will help BEP better demonstrate control over its assets and ensure that it accurately and factually describes the disposition of assets that are no longer in use.

CLIENT RESPONSE

Client Response

The letter and attachment that follows is the Ohio Rehabilitation Services Commission (ORSC) official response to the Business Enterprise Program performance audit of its inventory management function. Throughout the audit process, staff met with Agency officials to ensure substantial agreement on the factual information and conclusions presented in the report. As noted in ORSC's response, Business Enterprise Program administration and staff have begun to address the recommendations in the report.

State of Ohio
Rehabilitation Services Commission
John M. Connelly, Executive Director

Bureau of Services for
the Visually Impaired
400 East Campus View Boulevard
Columbus, Ohio 43235-4604
Telephone: (614) 438-1214

The Honorable Mary Taylor, CPA
Auditor of State
Lausche Building
615 Superior Ave. NW/ Twelfth Floor
Cleveland, Ohio 44113-1801

November 25, 2008

Dear Honorable Ms. Taylor:

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

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 four (4) recommendations within the audit and will begin to address each recommendation. Several initiatives have already begun which will further help the BEP maximize our efforts to increase accountability with regards to our equipment inventory. BEP has included the recommendations as well as steps underway for the final report.

Again, ORSC appreciates your earnest public service.

Sincerely,

John Connelly/enw

John Connelly
Executive Director
Ohio Rehabilitation Services Commission

serving Ohioans with disabilities

Response to recommendations from the
ORSC Business Enterprise Program Performance Audit

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.
    a. The BEP has reviewed both referenced documents, as well as the State of Ohio Asset Management Policies and Procedures issued December 16, 2006 and updated March 6, 2008, and FY2008 Compliance instructions for certifying State Property Inventory Activity with DAS dated September 5, 2008. With this information and the information provided in the AOS BEP Equipment Audit report BEP is further developing its' physical inventory procedures, segregation of duties, and asset retirement process. As policies are updated review and training is provided to all BEP staff.

2. BEP should establish an inventory schedule that includes both wall-to-wall and cyclical physical inventory counts using a minimum accuracy 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.
    a. BEP concurs and will develop in collaboration with AOS a schedule that will include both "wall-to-wall" and cyclical physical inventory counts based on the achievement of the 95% accuracy performance goal.
    b. BEP will continue to contract with AOS in order to further refine the accuracy of BEP assets and procedures for asset management.
    c. BEP is currently seeking information regarding bar code systems. In particular, the bar code system will need to be accessible for people with visual impairments. The Office of Information Technology (OIT) has developed a State of Ohio Standard titled Bar Code Standards for Automated Systems used by State of Ohio Governmental Agencies to Inventory Tangible Personal Property (ITS-SYS-01) dated December 15, 2006. Upon

successful research a system can meet both needs it is expected to be implemented prior to the end of the first quarter of SFY2009.

d. Although the DAS tracking threshold is $1,000, BEP currently tracks equipment with a purchase value of $500 or more unless it is considered a high theft item. Based on AOS input as well as implementation of a bar code system BEP will begin tracking assets under $500 in value if purchased in quantities as quick replacement items (e.g. vending machine coin mechanisms, vending machine paper money acceptors, microwaves etc.).
e. BEP will work with DAS and AOS in determining if equipment assets should be tracked if the equipment has depreciated to a zero dollar value using the DAS straight-line depreciation method.

3. RSC/BEP should review its current position responsibilities to ensure appropriate segregation of duties concerning asset management. RSC/BEP should also use the position responsibilities and evaluation process to improve inventory management processes and complete the inventory process in three months, in accordance with BE operations Manual. Thorough planning and monitoring the inventory results are key mechanisms that offer tan opportunity to gauge the inventory accuracy improvement and adapt these processes to meet the needs of the business operators. However, using the inventory counts and accuracy ratings would also help RSC/BEP better hold specialist accountable for the inventory under their stewardship.
   a. BEP concurs, and has been reviewing position responsibilities regarding segregation of duties. BEP will further define this with AOS input.
   b. BEP administration will adapt the 95% accuracy performance goal for all BEP staff as a plan of performance evaluation and measurable accountability.
   c. BEP staff are currently required to complete the inventory process from April 1 through June 30 in OAC.
   d. BEP administration will continue to provide BEP staff training on BEP asset management and asset management procedures.
   e. BEP will implement a method of physical asset counts among other staff by using BEP staff independent of businesses assigned as their responsibility.
   f. BEP will actively solicit business operator involvement in providing physical equipment counts.

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 that the final disposition of assets is accurately recorded.
    a. BEP will work with OIT/ORSCIT and service providers to include all disposition codes recommended by DAS (currently 26) in order to more accurately record the disposition of BEP assets.
    b. BEP is currently working with DAS/GSD to publish and award an ITB regarding a single provider of a single suitable storage facility. This method will provide greater control of equipment assets (currently multiple storage sites) and develop a uniform manner in which BEP equipment is evaluated for reuse, trade-in, sold as salvage, or scrapped.
    c. BEP will ask IT for an improved method to search the BEAMS database for equipment by partial serial number using wildcard characters.