ORSC Business Enterprise Program Equipment Inventory 2010
PERFORMANCE AUDIT

November 4, 2010

Mary Taylor, CPA
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 (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. This is the third 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 to the prior year inventories conducted for BEP.

Auditors also conducted follow up work on the recommendations made in the 2008 and 2009 audits. The results of the follow up work are included in the 2010 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.auditor.state.oh.us/ by choosing the "Audit Search" option.

Sincerely,

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 4, 2010

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

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Business Enterprise Program

The Ohio Rehabilitation Services Commission (ORSC) provides vocational rehabilitation services to eligible Ohioans with disabilities who seek employment. In particular, the Bureau of Services for the Visually Impaired (BSVI) and 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. BEP, an operating division of ORSC, is divided into eight regions and includes 111 distinct facilities.

Objectives, Scope and Methodology

On October 28, 2009, ORSC engaged the Auditor of State's Office (AOS) to audit its physical asset inventory for Fiscal Year 2010. AOS also conducted a physical asset inventory audit in 2009 and 2008 to assist ORSC in improving its physical asset inventory tracking and management. 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. The results of this audit were then compared to the previous equipment inventories exception and variance rates.

Ohio Administrative Code (OAC) 3304:1-21-05 describes equipment used for the Business Enterprise Program as owned by the Ohio Rehabilitation Services Commission (ORSC) Bureau of Services for the Visually Impaired (BSVI). Equipment includes any item with a depreciable life of one year or more. The OAC also describes the authority and responsibility of the BSVI and its employees. Specifically, OAC 3304:1-21-11(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." Also, 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 equipment inventory and, where appropriate, recorded discrepancies between physical assets and the information maintained in BEAMS. In addition, the 2010 performance audit was scoped to address the underlying risk of a major staff change within BEP. After the implementation of an early retirement incentive offered to ORSC, BEP experienced an almost 50 percent turnover in staff.

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 (approximately $11.4 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 increased inventory accuracy. BEP has worked to improve its controls and thereby improve its count results, mainly through increased management and staff training. The exceptions and variances noted in this audit were largely attributed to procedural issues and methods of tracking, transferring, and storing equipment.

[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.

Cyclical Physical Inventory Counts

In the original 2008 BEP performance audit (see **2008-2**), auditors recommended that BEP, as it improved inventory control, transition from wall to wall inventory counts to cyclical physical inventory counts. Overall, 2010 inventory assessments resulted in approximately 5 percent exceptions and 9 percent variances. These results represent significant improvement and meet the threshold benchmark suggested in the 2008 recommendation for the transition to cyclical counts. BEP could choose to implement cyclical inventory procedures based on agency goals and an accuracy threshold for exceptions of 95 percent.[3] The detailed information that follows can be used by BEP to identify which facilities and districts would be appropriate to transition to a revised inventory procedures. BEP officials should note, however, that staffing changes within districts appear to have a significant impact on inventory control and, therefore, should consider retaining wall to wall counts in years where staff transitions occur.

Summary Report of Active Facility Inventories

The following tables and charts document the results of the 2010 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 7 districts managed by 8 specialists, and 111 facilities with more than 100 operators. Overall, the inventory measures showed steady improvement Statewide over prior audit periods. Inventory control risks were significantly reduced as a result of BEP administrators' effort to implement prior performance audit recommendations. The 2010 inventory results indicate that, at the time of the audit, the management controls over inventory are properly designed and functioning as expected.

Table 1 and Chart 1 illustrate the exceptions by District in summary form.

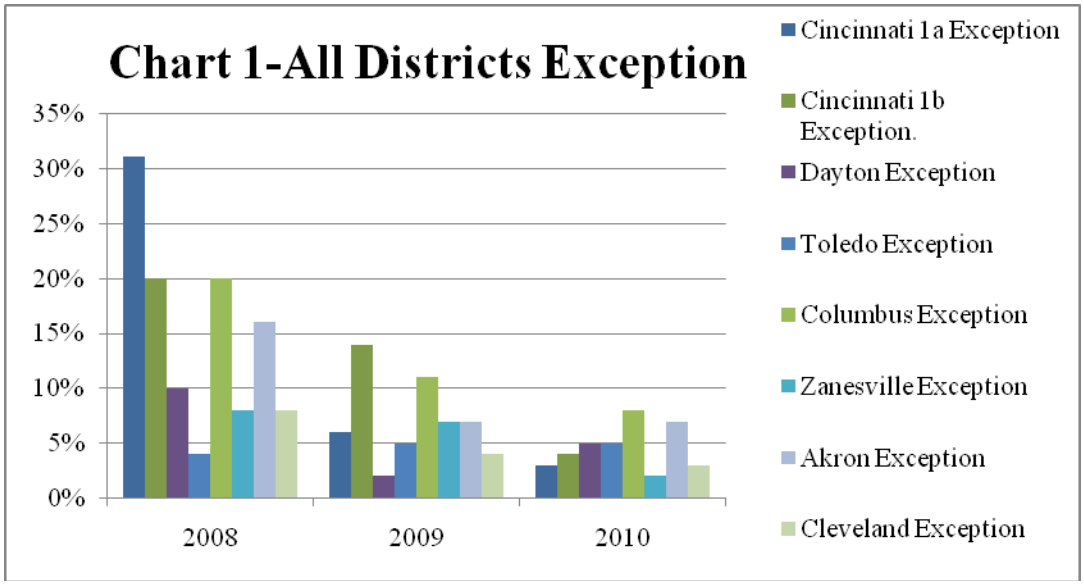
[3] Establishing accountability is the first key factor described in a report published by the Government Accountability Office in 2002, "Best Practice in Achieving Consistent Accurate Physical Counts of Inventory and Related Property" (GAO-02-447G Best Practices in Inventory Counts) and could be used by management for as a basis setting error tolerance to use a cyclical inventory.

Table 1: Exception Comparison Summary by District

District/Major City		Exceptions					
		2008		2009		**2010**	
		Count	Percent	Count	Percent	Count	Percent
District 1	Cincinnati A	171	26%	13	6%	**10**	**3%**
	Cincinnati B	-	-	13	3%	**8**	**4%**
District 2	Dayton	47	10%	7	2%	**20**	**5%**
District 3	Toledo	14	4%	15	5%	**16**	**5%**
District 4[1]	Columbus A	109	24%	29	7%	**63**[1]	**8%**
	Columbus B	70	16%	66	14%	-	-
	Columbus C	29	10%	32	11%	-	-
District 5	Zanesville	21	6%	13	4%	**11**	**2%**
District 6	Akron	68	16%	27	7%	**26**	**7%**
District 7[1]	Cleveland A	39	10%	6	2%	**22**[1]	**3%**
	Cleveland B	23	6%	20	6%	-	-
	Total Exceptions	591		241		**176**	
	Total Equipment	4,140		3,845		**3,682**	
	Mean % Exception		14%		6%		**5%**

Note: Percentage Exception and Variance calculated using exceptions and variances divided by total equipment units**.**

[1]Columbus, District 4, and Cleveland, District 7, specialists' duties were consolidated under one specialist in each district as a result of the early retirement incentive (ERI) which was accepted by 4 staff in the agency.



Source: AOS inventory count data

In 2010, approximately 5 percent of the equipment did not have an asset tag with a number that matched the asset tag number recorded in BEAMS, which is a 1 percent improvement from the prior year. This is a significant improvement from 2008 exception percentage of approximately 14 percent. The exceptions were a result of tagging and timing issues. The 5 percent exception error threshold should be used by BEP management to identify facilities that would be appropriate for the more efficient practice of cyclical inventory counts.

Table 2 and **Chart 2** illustrate the variances by District in summary form.

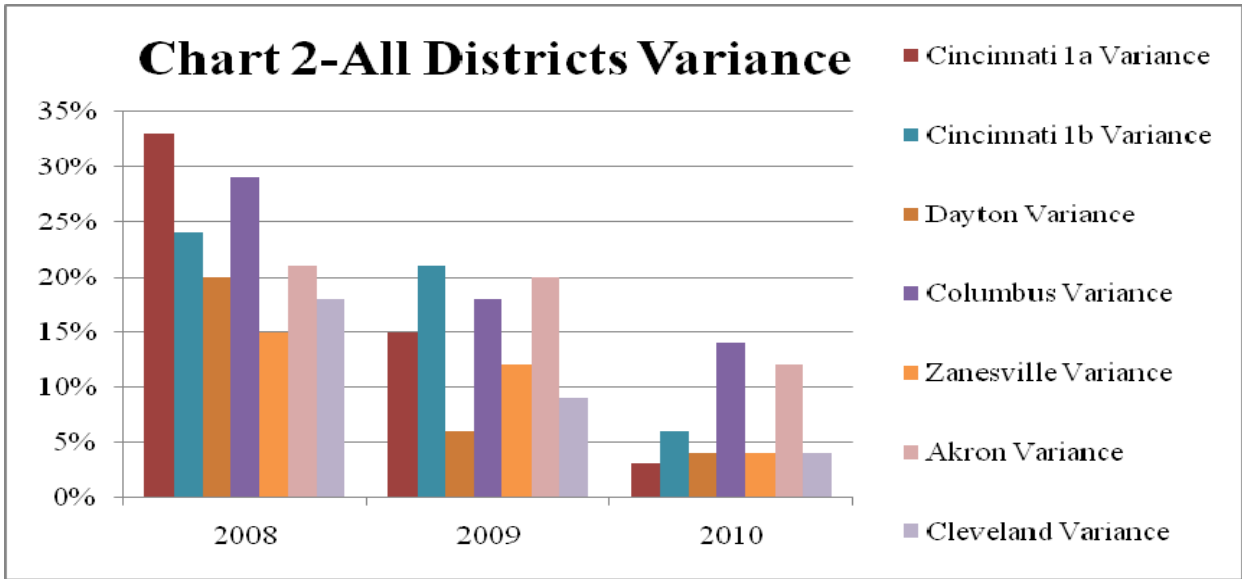
Table 2: Variance Comparison Summary by District

District/Major City		**Variances**					
		2008		2009		**2010**	
		Count	Percent	Count	Percent	Count	Percent
District 1	Cincinnati A	576	29%	91	13%	**36**	**7%**
	Cincinnati B			226	20%	**36**	**4%**
District 2	Dayton	260	19%	69	6%	**47**	**5%**
District 3	Toledo	72	8%	139	16%	**233**	**5%**
District 4[1]	Columbus A[1]	495	37%	260	19%	**354**	**8%**
	Columbus B	315	24%	236	17%	**Note**[2]	**Note**[2]
	Columbus C	142	16%	133	15%	**Note**[2]	**Note**[2]
District 5	Zanesville	130	13%	84	9%	**60**	**2%**
District 6	Akron	266	20%	299	24%	**137**	**7%**
District 7[2]	Cleveland A[2]	251	22%	87	9%	**84**	**3%**
	Cleveland B	133	12%	85	8%	**Note**[2]	**Note**[2]
	Total Variances	2,640		1713		**987**	
	Possible Variances	12,420		11,481		**11,046**	
	Mean % Variance		21%		15%		**9%**

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

[1]District 4, Columbus and District 7, Cleveland each have their own specialist.

[2]Consolidation of duties under one specialist each in District 4 and District 7



Source: AOS inventory count data

In 2010, AOS identified variances in 9 percent of the equipment in BEAMS which is a 6 percent improvement from the prior year and 12 percent improvement from 2008 when variances were approximately 21 percent. In most instances, the serial numbers for assets were truncated when entered into BEAMS. The results of the inventory audit have shown continuous improvement over the last three years and illustrate BEP's commitment to training and equipment tracking efforts. Specialists indicated some of the factors noted in the variances, especially the data entry and timing of the equipment inventory used during the audit, were beyond their control. BEP has continued to improve and refine its data entry procedures in an effort to reduce the timing errors. In 2008, the procedure and standard for truncating serial numbers was not formalized in the data entry procedures and the process of updating information varied across the State. These procedures have been updated at the Agency level.

District Information

Tables 3-6 and **Charts 3-4** are the results of exception and variance analysis for Cincinnati District 1. Charts include a linear trend line over the last three years. This district encompasses the south, southeastern, and southwestern portions of the State. It includes 28 separate facilities and is managed by two BEP specialists.

Table 3: District 1 Cincinnati A Exception 2008-10 by Facility

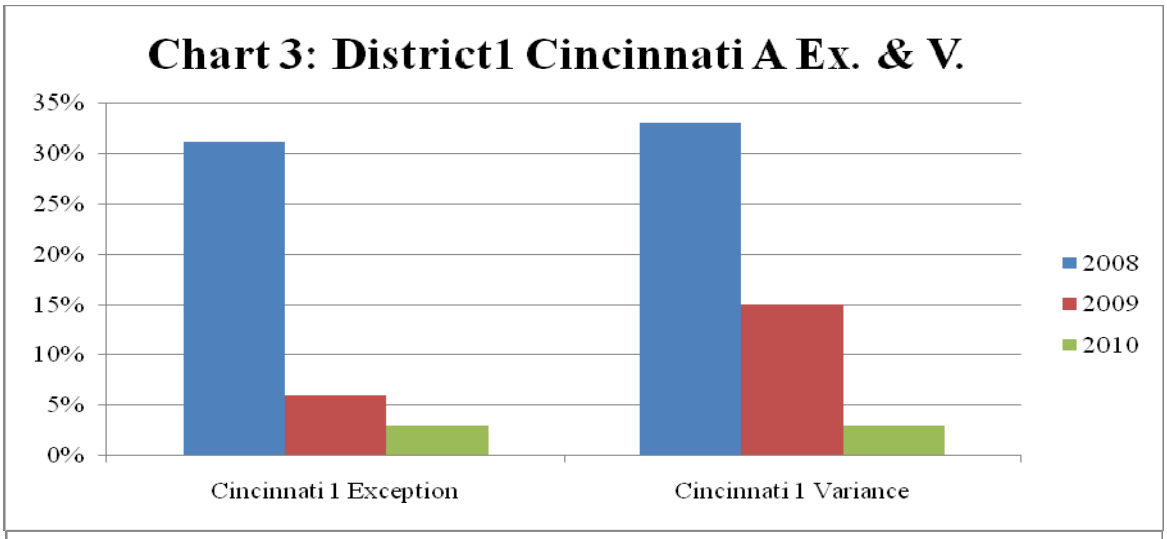
Fac#	Equipment Count BEAMS			Equipment Count AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
49	28	43	**48**	45	44	**48**	17	4	**1**	38%	9%	**2%**
50	16	17	**18**	17	18	**18**	0	1	**0**	0%	6%	**0%**
168	13	17	**13**	15	17	**13**	5	2	**0**	33%	12%	**0%**
169	53	69	**70**	61	73	**73**	17	5	**3**	28%	7%	**4%**
323	31	26	**21**	38	26	**21**	7	0	**1**	18%	0%	**5%**
369	9	13	**24**	9	14	**24**	2	2	**0**	22%	14%	**4%**
375	24	27	**25**	36	32	**26**	16	1	**1**	31%	3%	**4%**
408	43	39	**38**	46	39	**38**	13	1	**0**	46%	3%	**0%**
409	18	18	**16**	21	21	**16**	9	4	**0**	68%	19%	**0%**
466	17	33	**32**	8	33	**32**	8	0	**0**	34%	10%	**0%**
489	22	33	**16**	30	35	**18**	2	2	**3**	7%	6%	**19%**
490	19	29	**31**	28	29	**33**	14	0	**1**	50%	0%	**3%**
Total	293	364	**352**	354	381	**360**	110	22	**10**	31%	6%	**3%**

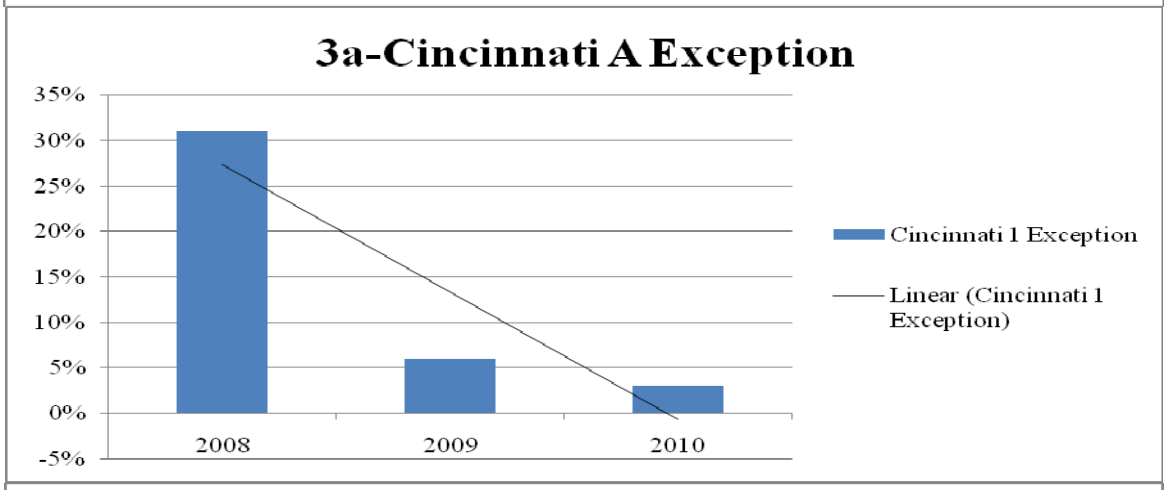
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

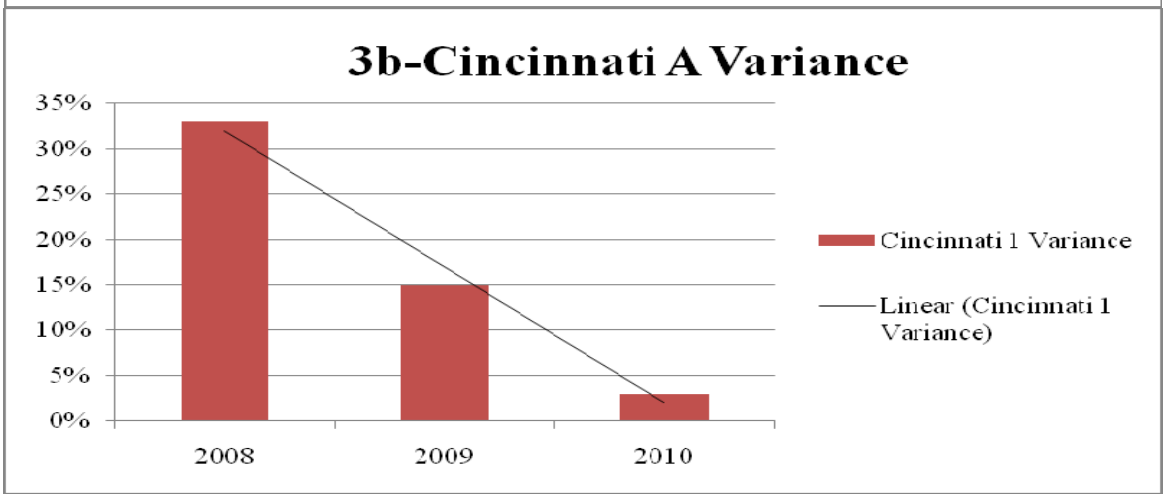
Table 4: District 1 Cincinnati A Variance 2008-10 by Facility

Fac#	Equipment Count BEAMS			Equipment Count AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
49	28	43	**48**	45	44	**48**	37	19	**1**	27%	14%	**2%**
50	16	17	**18**	17	18	**18**	7	5	**0**	14%	9%	**0%**
168	13	17	**13**	15	17	**13**	7	14	**0**	16%	27%	**0%**
169	53	69	**70**	61	73	**73**	27	27	**9**	15%	12%	**4%**
323	31	26	**21**	38	26	**21**	39	10	**3**	34%	14%	**5%**
369	9	13	**24**	9	14	**24**	6	7	**3**	22%	17%	**4%**
375	24	27	**25**	36	32	**26**	33	15	**1**	31%	16%	**4%**
408	43	39	**38**	46	39	**38**	64	7	**1**	46%	6%	**0%**
409	18	18	**16**	21	21	**16**	43	18	**1**	68%	29%	**0%**
466	17	33	**32**	8	33	**32**	34	10	**0**	34%	10%	**0%**
489	22	33	**16**	30	35	**18**	28	24	**8**	31%	23%	**19%**
490	19	29	**31**	28	29	**33**	29	16	**9**	35%	18%	**3%**
Total	293	364	**352**	354	381	**360**	354	172	**36**	33%	15%	**3%**

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







Source: AOS inventory count data

Table 5: District 1 Cincinnati B Exception 2008-10 by Facility

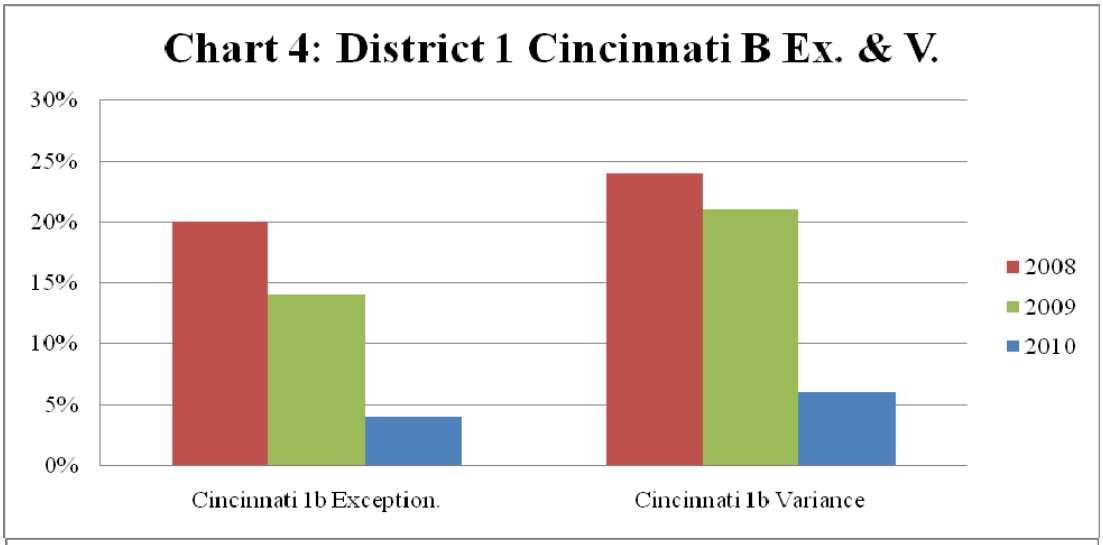
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
45	17	18	**19**	17	19	**20**	0	1	**1**	0%	5%	**5%**
232	39	38	**38**	39	38	**38**	1	0	**0**	3%	0%	**0%**
317	37	36	**-**	46	38	**-**	16	0	**-**	35%	0%	**-**
396	7	8	**7**	7	9	**8**	0	1	**1**	0%	11%	**14%**
397	14	13	**11**	14	13	**12**	2	0	**1**	14%	0%	**9%**
419	21	19	**19**	21	20	**19**	4	0	**0**	19%	0%	**0%**
430	10	8	**9**	10	9	**9**	3	1	**1**	30%	11%	**11%**
431	9	11	**11**	9	12	**11**	0	0	**1**	0%	0%	**9%**
432	16	17	**17**	18	17	**17**	5	1	**1**	28%	6%	**6%**
433	14	14	**14**	16	14	**16**	1	0	**2**	6%	0%	**14%**
496	26	28	**28**	33	28	**28**	8	0	**0**	24%	0%	**0%**
506	19	26	**27**	28	26	**27**	11	1	**0**	39%	4%	**0%**
Total	229	236	**200**	258	243	**205**	51	5	**8**	20%	2%	**4%**

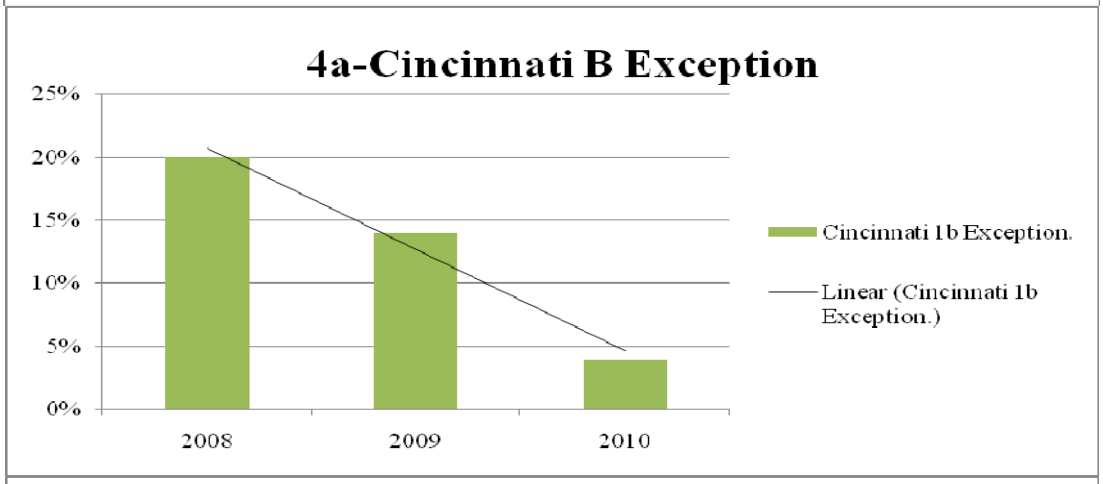
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

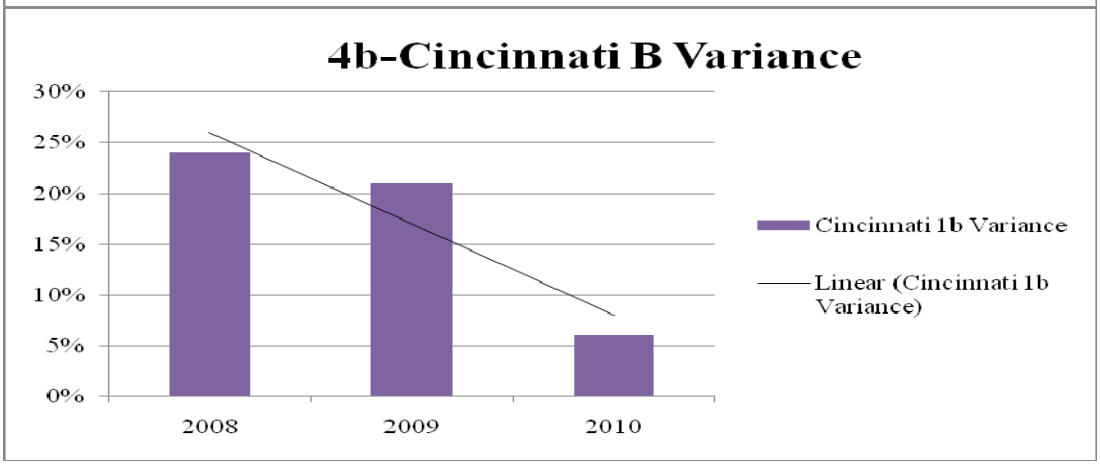
Table 6: District 1 Cincinnati B Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
45	17	18	**19**	17	19	**20**	0	15	**5**	0%	26%	**9%**
232	39	38	**38**	39	38	**38**	14	8	**3**	12%	7%	**3%**
317	37	36	**-**	46	38	**-**	46	30	**-**	33%	26%	**-**
396	7	8	**7**	7	9	**8**	0	6	**11**	0%	22%	**52%**
397	14	13	**11**	14	13	**12**	6	4	**4**	14%	10%	**12%**
419	21	19	**19**	21	20	**19**	23	2	**0**	37%	3%	**0%**
430	10	8	**9**	10	9	**9**	9	10	**3**	30%	37%	**11%**
431	9	11	**11**	9	12	**11**	6	11	**1**	22%	31%	**3%**
432	16	17	**17**	18	17	**17**	10	23	**4**	19%	45%	**8%**
433	14	14	**14**	16	14	**16**	7	20	**4**	17%	48%	**10%**
496	26	28	**28**	33	28	**28**	28	1	**1**	28%	1%	**1%**
506	19	26	**27**	28	26	**27**	40	25	**0**	48%	32%	**0%**
Total	229	236	**200**	258	243	**205**	189	155	**36**	24%	21%	**6%**

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







Source: AOS inventory count data

As illustrated in **Charts 3** and **4**, District 1, Cincinnati A exceptions decreased from above 30 percent to 3 percent over the three year period. Similarly, the Cincinnati B exceptions decreased from 20 percent to 4 percent during the same timeframe. Barring staff turnover, District 1 would be a good candidate to consider for focused cyclical inventory. The decrease in exceptions found at Cincinnati A, from 31 percent in 2008 to 6 percent in 2009 and to 3 percent in 2010, suggests that a cyclical equipment count would be appropriate 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 **Tables 7** and **8 and Chart 5**.

Table 7: District 2 Dayton Exception 2008-10 by Facility

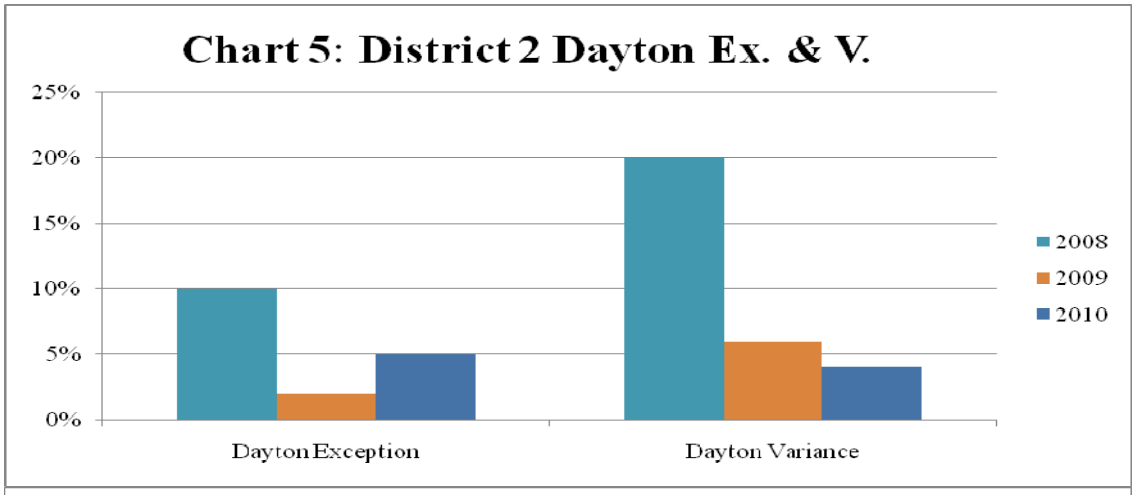
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
261	35	37	**37**	37	37	**37**	5	0	**0**	14%	0%	**0%**
296	31	28	**28**	35	28	**28**	4	0	**1**	11%	0%	**4%**
318	34	34	**28**	34	36	**28**	3	0	**0**	9%	0%	**0%**
424	43	48	**-**	48	48	**-**	8	0	**-**	17%	0%	**-**
425	22	22	**26**	22	22	**26**	1	1	**2**	5%	5%	**8%**
439	8	5	**8**	8	8	**8**	1	3	**0**	13%	38%	**0%**
440	13	10	**9**	13	11	**9**	2	1	**0**	15%	9%	**0%**
443	-	-	**8**	-	-	**8**	-	-	**0**	-	-	**0%**
444	15	4	**8**	15	4	**8**	1	0	**0**	7%	0%	**0%**
447	11	9	**11**	11	10	**11**	1	0	**0**	9%	0%	**0%**
448	9	9	**52**	9	9	**52**	1	0	**2**	11%	0%	**4%**
502	58	55	**54**	68	57	**55**	12	2	**4**	18%	4%	**7%**
507	2	2	**2**	2	2	**2**	0	0	**0**	0%	0%	**0%**
531	35	36	**35**	38	37	**35**	3	0	**0**	8%	0%	**0%**
538	84	88	**95**	84	88	**97**	1	0	**11**	1%	0%	**12%**
Total	400	387	**401**	424	397	**404**	43	7	**20**	10%	2%	**5%**

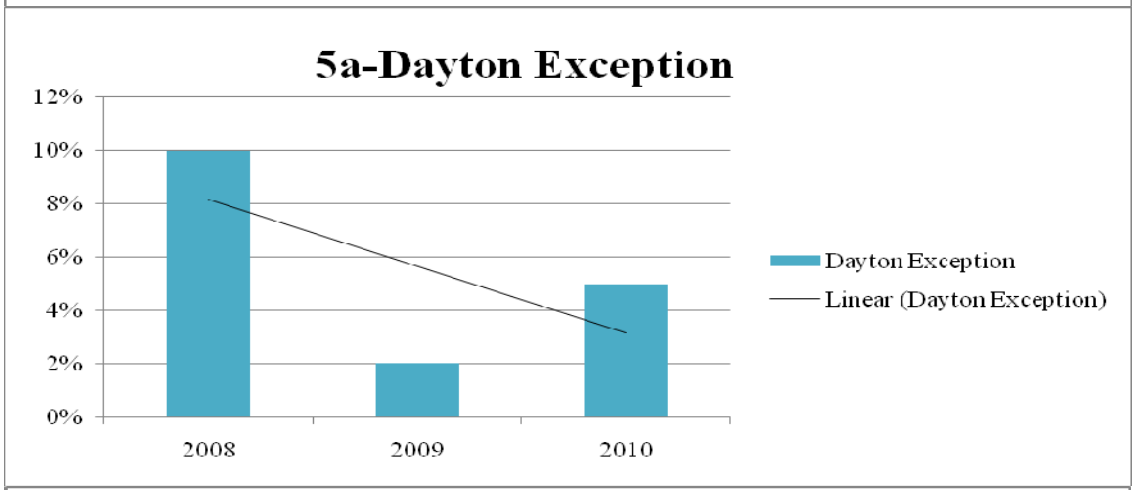
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

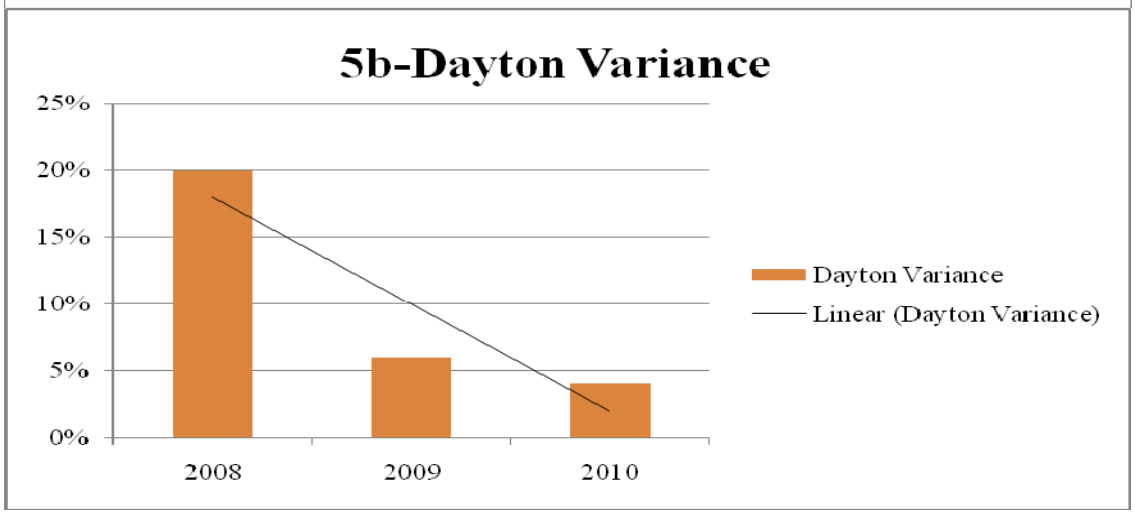
Table 8: District 2 Dayton Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
261	35	37	**37**	37	37	**37**	22	13	**0**	20%	12%	**0%**
296	31	28	**28**	35	28	**28**	23	0	**4**	22%	0%	**5%**
318	34	34	**28**	34	36	**28**	11	7	**0**	11%	6%	**0%**
424	43	48	**-**	48	48	**-**	39	5	**-**	27%	3%	**-**
425	22	22	**26**	22	22	**26**	10	4	**3**	15%	6%	**4%**
439	8	5	**8**	8	8	**8**	4	0	**0**	17%	0%	**0%**
440	13	10	**9**	13	11	**9**	9	0	**0**	23%	0%	**0%**
443	-	-	**8**	-	-	**8**	-	-	**2**	-	-	**8%**
444	15	4	**8**	15	4	**8**	9	0	**0**	20%	0%	**0%**
447	11	9	**11**	11	10	**11**	4	2	**0**	12%	7%	**0%**
448	9	9	**52**	9	9	**52**	5	0	**7**	19%	0%	**5%**
502	58	55	**54**	68	57	**55**	74	18	**15**	36%	11%	**9%**
507	2	2	**2**	2	2	**2**	1	0	**0**	17%	0%	**0%**
531	35	36	**35**	38	37	**35**	29	10	**1**	25%	9%	**1%**
538	84	88	**95**	84	88	**97**	12	10	**15**	5%	4%	**5%**
Total	400	387	**401**	424	397	**404**	252	69	**47**	20%	6%	**4%**

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







Source: AOS inventory count data

As illustrated in **Charts 5a** and **5b**, Dayton District 2 exceptions decreased from 10 percent to 5 percent over the three year timeframe. However, from 2009 to 2010 the exceptions increased from 2 percent to 5 percent. While still within the tolerance for cyclical auditing procedures, the increase from the prior year suggests continued scrutiny, perhaps by targeting problem facilities like 538 where exceptions increased from 0 to 11 and contributed to the increase more than any other facility in the district. This District also might be appropriate to transition to cyclical counts, barring staff turnover.

District 3 covers the northwestern portion of Ohio and includes eight separate facilities. The exceptions and variances noted in District 3 are illustrated in **Tables 9** and **10 and Charts 6a** and **6b.**

Table 9: District 3 Toledo Exception 2008-10 by Facility

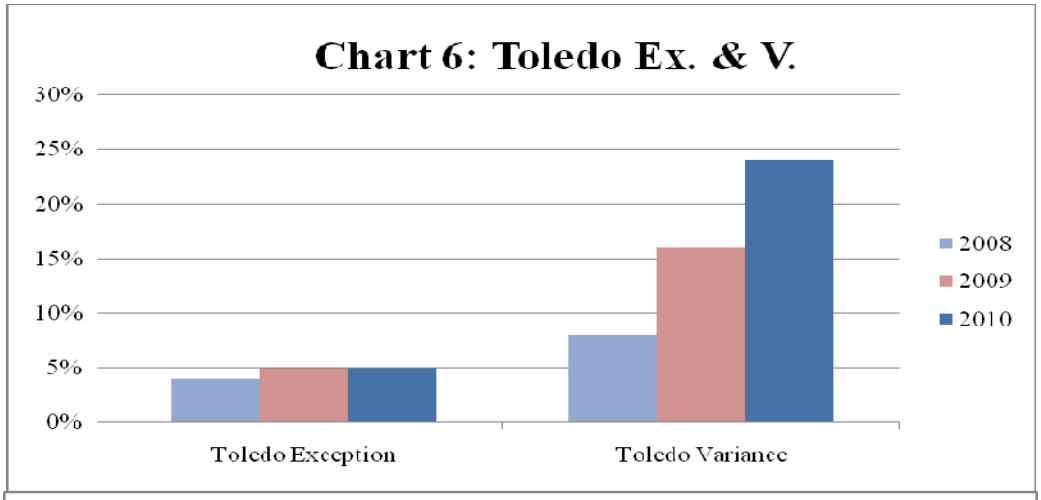
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
76	-	-	**9**	-	-	**12**	-	-	**3**	-	-	**33%**
161	53	35	**-**	54	36	**-**	10	2	**-**	19%	6%	**-**
304	88	81	**80**	88	83	**81**	2	7	**2**	2%	8%	**3%**
344	22	22	**49**	22	22	**50**	0	1	**3**	0%	5%	**6%**
370	48	48	**48**	52	48	**49**	2	2	**2**	4%	4%	**4%**
445	12	14	**14**	15	14	**14**	0	0	**0**	0%	0%	**0%**
449	38	41	**42**	41	41	**43**	0	0	**2**	0%	0%	**5%**
450	11	11	**10**	11	11	**10**	0	0	**1**	0%	0%	**!0%**
483	28	29	**41**	29	30	**43**	0	3	**3**	0%	10%	**7%**
543	-	8	**10**	-	8	**10**	-	0	**0**	-	0%	**0%**
689	-	-	**8**	-	-	**8**	-	-	**0**	-	-	**0%**
Total	300	289	**311**	312	293	**320**	14	15	**16**	4%	5%	**5%**

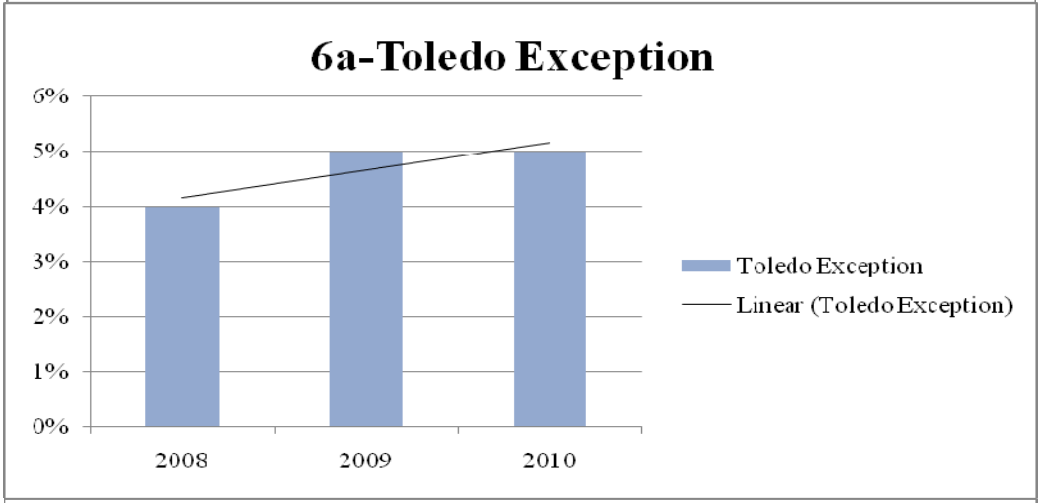
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

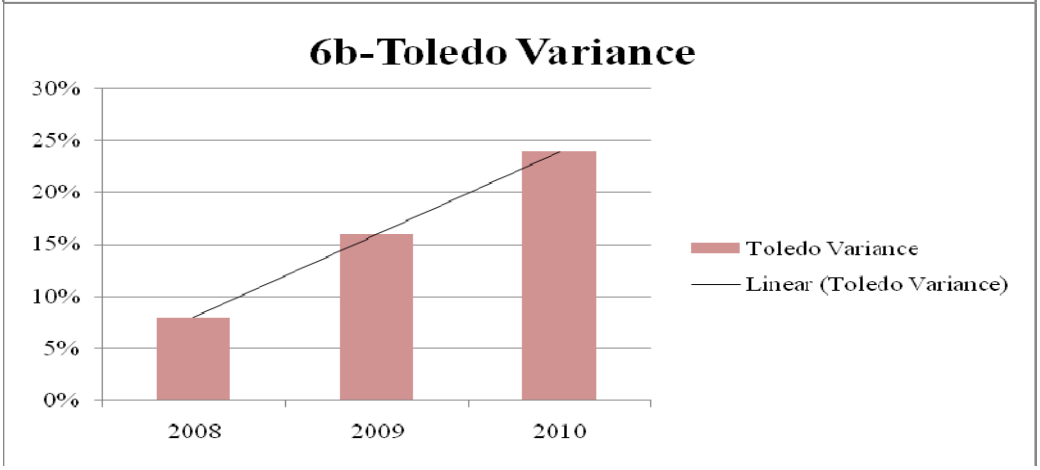
Table 10: District 3 Toledo Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
76	-	-	**9**	-	-	**12**	-	-	**11**	-	-	**41%**
161	53	35	**-**	54	36	**-**	32	19	**-**	20%	18%	-
304	88	81	**80**	88	83	**81**	8	43	**56**	3%	17%	23%
344	22	22	**49**	22	22	**50**	0	16	**40**	0%	24%	27%
370	48	48	**48**	52	48	**49**	15	28	**23**	10%	19%	16%
445	12	14	**14**	15	14	**14**	6	5	**11**	13%	12%	26%
449	38	41	**42**	41	41	**43**	7	23	**43**	6%	19%	34%
450	11	11	**10**	11	11	**10**	1	2	**15**	3%	6%	50%
483	28	29	**41**	29	30	**43**	3	2	**25**	3%	6%	20%
543	-	8	**10**	-	8	**10**	-	1	**3**	-	4%	10%
689	-	-	**8**	-	-	**8**	-	-	**6**	-	-	25%
Total	300	289	**311**	312	293	**320**	72	139	**233**	8%	16%	24%

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







Source: AOS inventory count data

As illustrated in **Charts 6a** and **6b**, Toledo District 3 exceptions remained constant at approximately 5 percent. While this meets the benchmark, the exception trend-line indicates an increasing risk and suggests additional close scrutiny, especially in 2011, before adopting cyclical counting. The variance chart suggests a continuation of wall to wall inventory procedures would be appropriate for the Toledo district since the rate of variances has nearly tripled from approximately 8 percent in 2008 to 24 percent in 2010. The linear variance trend and actual results shown in **Table 6b** support postponing the consideration of cyclical counting until the District meets the variance benchmark of 5 percent.

District 4 covers Columbus and central Ohio northwestern portion of Ohio and includes 23 separate facilities and is managed by one specialist. The exceptions and variances noted in District 4 are illustrated in **Table 11** and **Charts 7a** and **7b.**

Table 11: District 4 Columbus Exception 2008-10 by Facility

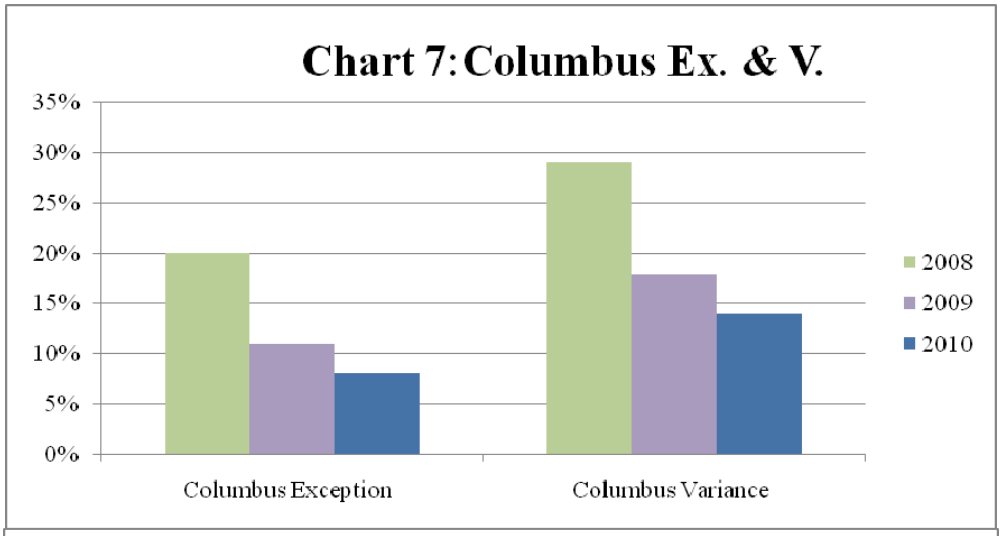
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
245	21	21	**19**	22	21	**19**	6	1	**3**	27%	5%	**16%**
259	23	23	**22**	26	23	**22**	3	0	**0**	12%	0%	**0%**
332	27	5	**12**	35	5	**12**	8	2	**1**	23%	40%	**8%**
340	23	32	**36**	41	42	**38**	6	5	**2**	15%	12%	**6%**
384	82	88	**51**	115	99	**53**	36	30	**2**	31%	30%	**4%**
387	22	29	**32**	27	29	**32**	13	4	**0**	48%	14%	**0%**
412	42	35	**33**	51	37	**39**	22	6	**9**	43%	16%	**27%**
437	16	16	**7**	16	**16**	**8**	2	**2**	**1**	13%	13%	**14%**
438	17	16	**8**	17	**16**	**8**	0	**1**	**0**	0%	6%	**0%**
452	87	69	**73**	108	80	**76**	21	**8**	**7**	19%	10%	**10%**
484	50	54	**52**	56	56	**52**	9	**3**	**2**	16%	5%	**4%**
485	-	-	**51**	-	-	**60**	-	-	**10**	-	-	**20%**
488	23	23	**19**	23	23	**21**	1	1	**2**	4%	4%	**11%**
495	21	21	**23**	22	23	**24**	5	0	**1**	23%	0%	**4%**
499	27	27	**26**	28	27	**26**	3	0	**0**	11%	0%	**0%**
504	27	26	**26**	27	28	**28**	2	4	**2**	7%	14%	**8%**
524	47	57	**21**	56	63	**21**	10	11	**4**	18%	17%	**19%**
525	45	44	**47**	47	48	**47**	3	1	**0**	6%	2%	**0%**
526	31	25	**17**	31	25	**17**	6	0	**3**	19%	0%	**18%**
626	21	38	**39**	29	40	**39**	6	1	**2**	21%	3%	**5%**
627	23	36	**37**	24	43	**37**	0	6	**1**	0%	14%	**3%**
657	54	80	**76**	58	97	**83**	6	12	**11**	24%	21%	**14%**
684	-	62	**69**	-	62	**69**	-	0	**0**	-	0%	**0%**
Total	729	827	**796**	859	903	**831**	168	98	**63**	20%	11%	**8%**

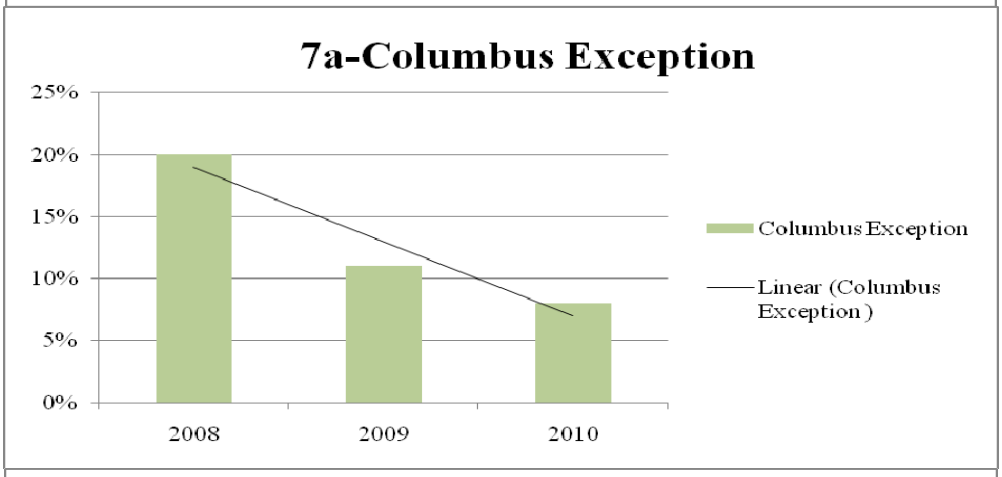
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

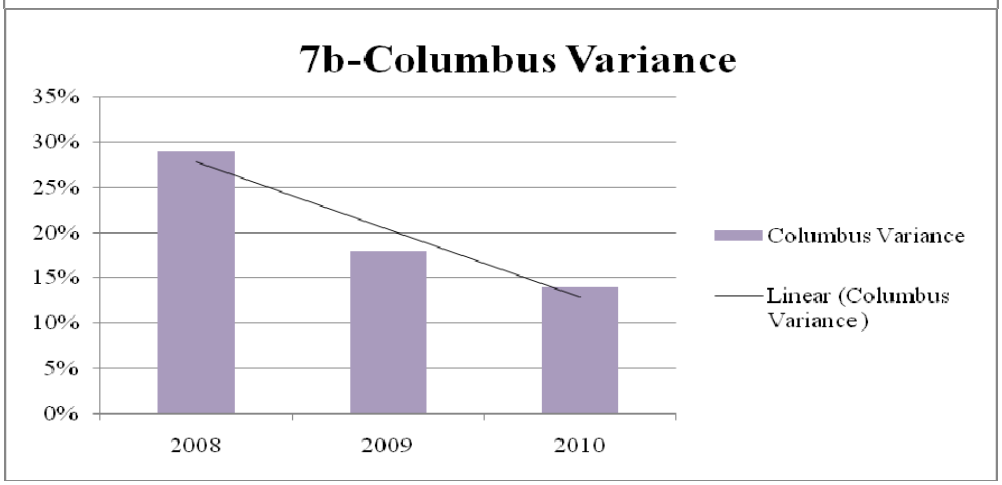
Table 12: District 4 Columbus Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
245	21	21	**19**	22	21	**19**	7	6	**3**	11%	10%	**5%**
259	23	23	**22**	26	23	**22**	14	2	**1**	18%	3%	**2%**
332	27	5	**12**	35	5	**12**	38	5	**0**	36%	33%	**0%**
340	23	32	**36**	41	42	**38**	59	26	**25**	48%	21%	**23%**
384	82	88	**51**	115	99	**53**	162	98	**11**	47%	33%	**7%**
387	22	29	**32**	27	29	**32**	35	13	**3**	43%	15%	**3%**
412	42	35	**33**	51	37	**39**	88	12	**20**	58%	11%	**20%**
437	16	16	**7**	16	**16**	**8**	6	1	**2**	13%	2%	**10%**
438	17	16	**8**	17	**16**	**8**	3	3	**1**	6%	6%	**4%**
452	87	69	**73**	108	80	**76**	116	86	**36**	36%	36%	**16%**
484	50	54	**52**	56	56	**52**	35	28	**8**	21%	17%	**5%**
485	-	-	**51**	-	-	**60**	-	-	**36**	-	-	**24%**
488	23	23	**19**	23	23	**21**	7	3	**4**	10%	4%	**7%**
495	21	21	**23**	22	23	**24**	8	17	**4**	12%	25%	**6%**
499	27	27	**26**	28	27	**26**	18	26	**3**	21%	32%	**4%**
504	27	26	**26**	27	28	**28**	12	10	**4**	15%	12%	**5%**
524	47	57	**21**	56	63	**21**	44	31	**43**	26%	16%	**68%**
525	45	44	**47**	47	48	**47**	20	19	**7**	14%	13%	**5%**
526	31	25	**17**	31	25	**17**	20	21	**9**	22%	28%	**18%**
626	21	38	**39**	29	40	**39**	23	8	**24**	26%	7%	**21%**
627	23	36	**37**	24	43	**37**	4	24	**3**	6%	19%	**3%**
657	54	80	**76**	58	97	**83**	41	61	**36**	24%	21%	**16%**
684	-	62	**69**	-	62	**69**	-	0	**71**	-	0%	**34%**
Total	729	827	**796**	859	903	**831**	760	500	**354**	29%	18%	**14%**

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







Source: AOS inventory count data

As illustrated in **Charts 7a** and **7b**, Columbus District 4 exceptions and variances decreased over the three-year period but exceed the 5 percent threshold. This District was consolidated and the number of mangers reduced from three specialists to one specialist. Exceptions are at 8 percent, slightly above the benchmark, which would suggest that wall-to-wall inventory is still appropriate for this District.

District 5 comprises 15 facilities. It covers east central Ohio and includes facilities to the north and south of Interstate 70 as well as inside and outside the Columbus area. It is managed by one specialist. The exceptions and variances noted in District 5 are illustrated in **Tables 13** and **14** and **Chart 8a** and **8b.**

Table 13: District 5 Zanesville Exception 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
156	-	25	**23**	-	25	**23**	-	1	**0**	-	4%	**0%**
404[1]	45	47	**46**	46	51	**46**	2	7	**0**	4%	14%	**0%**
414	93	83	**86**	94	86	**87**	5	5	**4**	5%	6%	**5%**
415	51	34	**23**	51	37	**23**	3	0	**1**	6%	0%	**4%**
481	49	27	**21**	49	27	**21**	8	1	**0**	16%	14%	**0%**
482	36	34	**38**	37	34	**38**	2	1	**0**	5%	3%	**0%**
487[1]	37	38	**39**	43	43	**41**	5	5	**2**	12%	12%	**5%**
491[1]	22	23	**24**	25	25	**24**	6	7	**1**	24%	28%	**4%**
511[1]	48	55	**60**	49	59	**60**	2	4	**0**	4%	7%	**0%**
514	13	13	**21**	13	13	**21**	0	0	**0**	0%	0%	**0%**
515	17	20	**20**	17	20	**21**	1	0	**1**	6%	0%	**5%**
518	15	15	**15**	15	15	**15**	0	0	**0**	0%	0%	**0%**
523	59	60	**51**	64	60	**51**	2	5	**0**	3%	8%	**0%**
530[1]	18	19	**22**	20	24	**24**	3	2	**2**	15%	8%	**9%**
623[1]	28	31	**30**	31	32	**30**	4	3	**0**	13%	9%	**0%**
Total	531	524	**519**	554	551	**525**	43	41	**11**	8%	7%	**2%**

[1]Facilities were in Columbus Region in 2008 and 2009

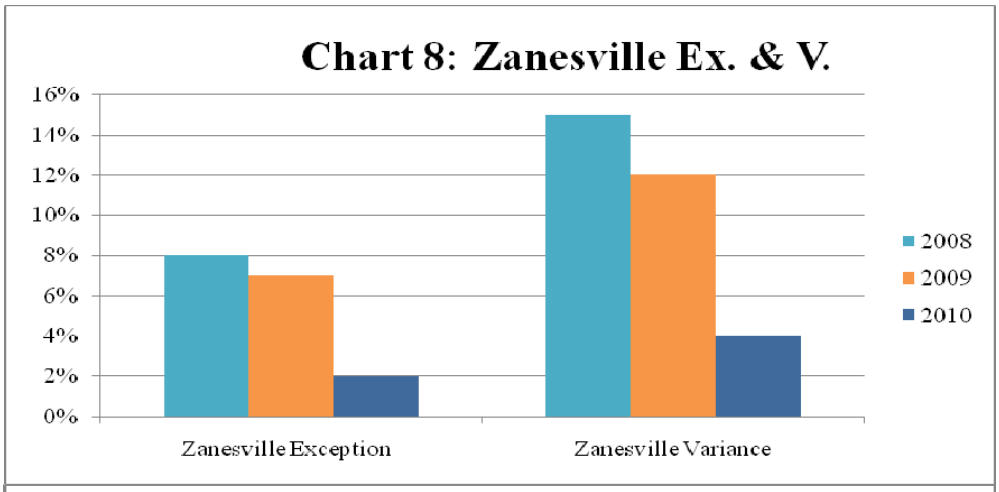
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

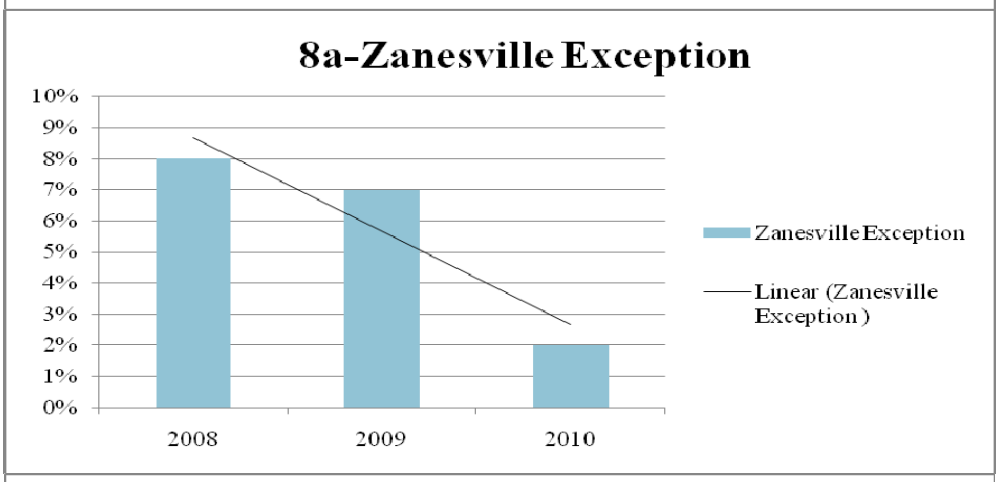
Table 14: District 5 Zanesville Variance 2008-10 by Facility

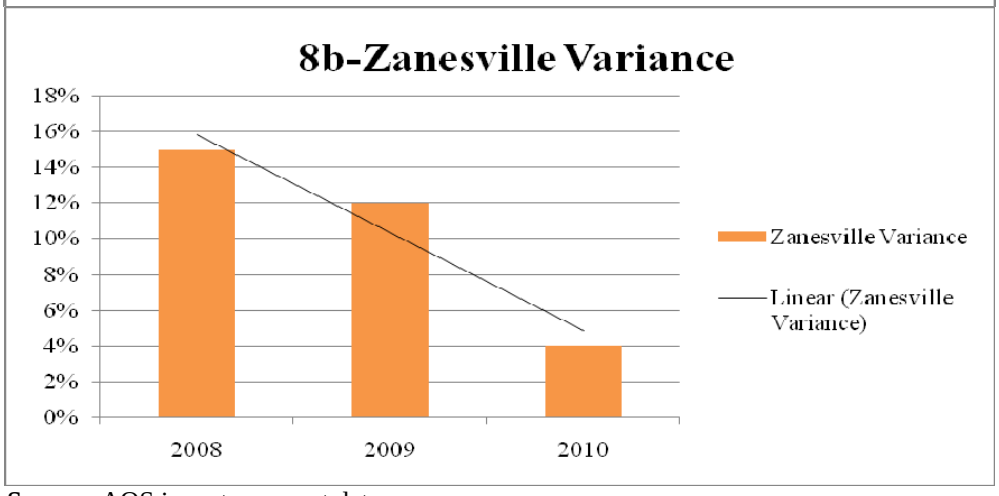
Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
156	-	25	**23**	-	25	**23**	-	5	**1**	-	7%	**1%**
404[1]	45	47	**46**	46	51	**46**	12	27	**1**	9%	18%	**1%**
414	93	83	**86**	94	86	**87**	44	29	**15**	16%	11%	**6%**
415	51	34	**23**	51	37	**23**	21	13	**5**	14%	12%	**7%**
481	49	27	**21**	49	27	**21**	24	11	**1**	16%	14%	**2%**
482	36	34	**38**	37	34	**38**	13	6	**7**	12%	6%	**8%**
487[1]	37	38	**39**	43	43	**41**	36	30	**7**	28%	23%	**6%**
491[1]	22	23	**24**	25	25	**24**	25	15	**2**	33%	20%	**3%**
511[1]	48	55	**60**	49	59	**60**	9	33	**3**	6%	19%	**2%**
514	13	13	**21**	13	13	**21**	1	0	**1**	3%	0%	**2%**
515	17	20	**20**	17	20	**21**	2	2	**2**	4%	3%	**3%**
518	15	15	**15**	15	15	**15**	0	2	**1**	0%	4%	**2%**
523	59	60	**51**	64	60	**51**	25	16	**4**	13%	9%	**3%**
530[1]	18	19	**22**	20	24	**24**	19	11	**5**	32%	15%	**8%**
623[1]	28	31	**30**	31	32	**30**	12	3	**5**	13%	3%	**6%**
Totals	531	524	**519**	554	551	**525**	243	203	**60**	15%	12%	**4%**

[1]Facilities were in Columbus Region in 2008 and 2009

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







Source: AOS inventory count data

As illustrated in **Charts 8a** and **8b**, Zanesville District 5 exceptions and variances are below the 5 percent threshold. This District is a good candidate for a transition to cyclical counting. The District's number of facilities expanded as part of the Columbus District consolidation. The specialist handling this district absorbed the additional facilities and reduced exceptions and variances over the three-year period from 8 percent to 2 percent and 15 percent to 4 percent respectively.

District 6 covers northeastern Ohio, comprises 11 facilities around the Akron area and is managed by one specialist. The exceptions and variances noted in District 6 are illustrated in **Tables 15** and **16** and **Charts 9a** and **9b.**

Table 15: District 6 Akron Exception 2008-10 by Facility

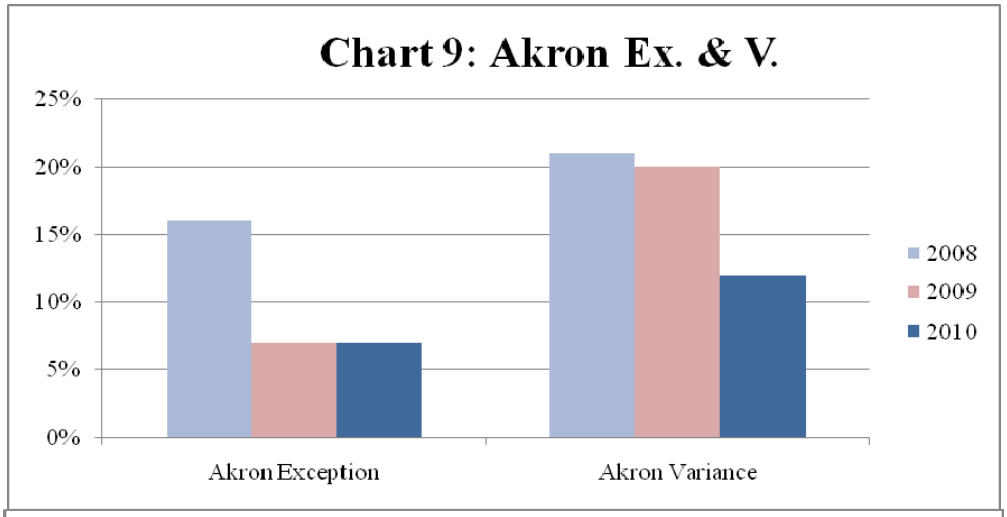
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
80	43	59	**51**	45	62	**51**	5	3	**8**	11%	5%	**16%**
145	82	86	**83**	97	92	**83**	16	4	**6**	16%	4%	**7%**
293	76	59	**58**	82	59	**59**	27	4	**3**	33%	7%	**5%**
359	11	13	**12**	11	13	**12**	0	0	**0**	0%	0%	**0%**
372	33	30	**35**	33	32	**35**	2	2	**4**	6%	6%	**11%**
374	38	39	**38**	41	40	**38**	3	2	**2**	7%	5%	**5%**
441	18	19	**19**	20	20	**19**	1	1	**0**	5%	5%	**0%**
442	28	23	**34**	30	28	**34**	3	3	**0**	10%	11%	**0%**
478	18	13	**15**	21	16	**15**	7	4	**0**	33%	25%	**0%**
532	17	20	**20**	20	22	**20**	2	4	**1**	10%	18%	**5%**
541	12	15	**17**	13	17	**17**	0	0	**2**	0%	0%	**12%**
Total	376	376	**382**	413	401	**383**	66	27	**26**	16%	7%	**7%**

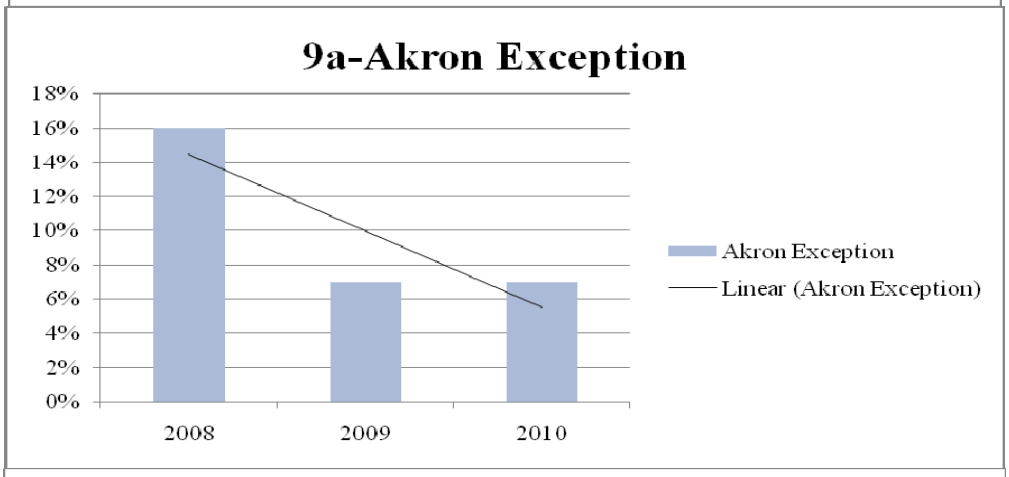
Note: Percentage Exceptions/Variances calculated using exceptions and variances divided by total equipment**.**

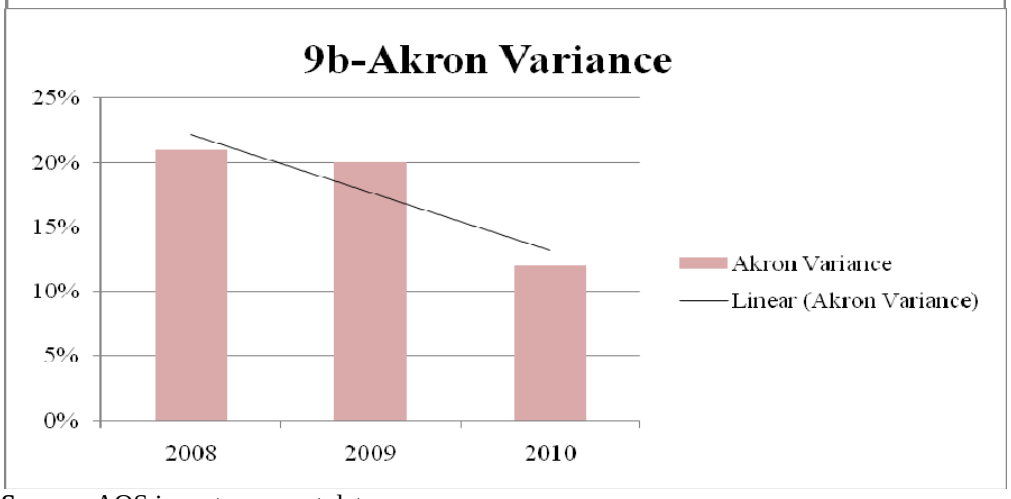
Table 16: District 6 Akron Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
80	43	59	**51**	45	62	**51**	15	15	**32**	11%	11%	**21%**
145	82	86	**83**	97	92	**83**	72	72	**43**	25%	25%	**17%**
293	76	59	**58**	82	59	**59**	93	22	**13**	38%	12%	**7%**
359	11	13	**12**	11	13	**12**	0	5	**1**	0%	13%	**3%**
372	33	30	**35**	33	32	**35**	6	13	**22**	6%	14%	**21%**
374	38	39	**38**	41	40	**38**	17	32	**7**	14%	27%	**6%**
441	18	19	**19**	20	20	**19**	7	4	**3**	12%	7%	**5%**
442	28	23	**34**	30	28	**34**	13	18	**1**	14%	21%	**1%**
478	18	13	**15**	21	16	**15**	22	24	**2**	35%	50%	**4%**
532	17	20	**20**	20	22	**20**	9	24	**5**	15%	36%	**8%**
541	12	15	**17**	13	17	**17**	2	9	**8**	5%	18%	**16%**
Total	376	376	**382**	413	401	**383**	256	238	**137**	21%	20%	**12%**

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







Source: AOS inventory count data

As illustrated in **Charts 9a** and **9b**, Akron District 6 exceptions and variances exceed the 5 percent benchmark through the trend in each is improving. **Table 15** shows that facility #80 was responsible for approximately 30 percent of the exceptions. The improvement trend indicates that this District may, in the future, be appropriate to transition to a cyclical count, perhaps with an increased emphasis on the facilities with the greatest number of exceptions and variances.

District 7, comprising 14 facilities, covers the most northern portions of Ohio and includes the greater Cleveland area. The District was consolidated in FY 2010 and is overseen by one specialist. The exceptions and variances noted in District 7 are illustrated in **Tables 17** and **18** and **Charts 10a** and **10b.**

Table 17: District 7 Cleveland Exception 2008-10 by Facility

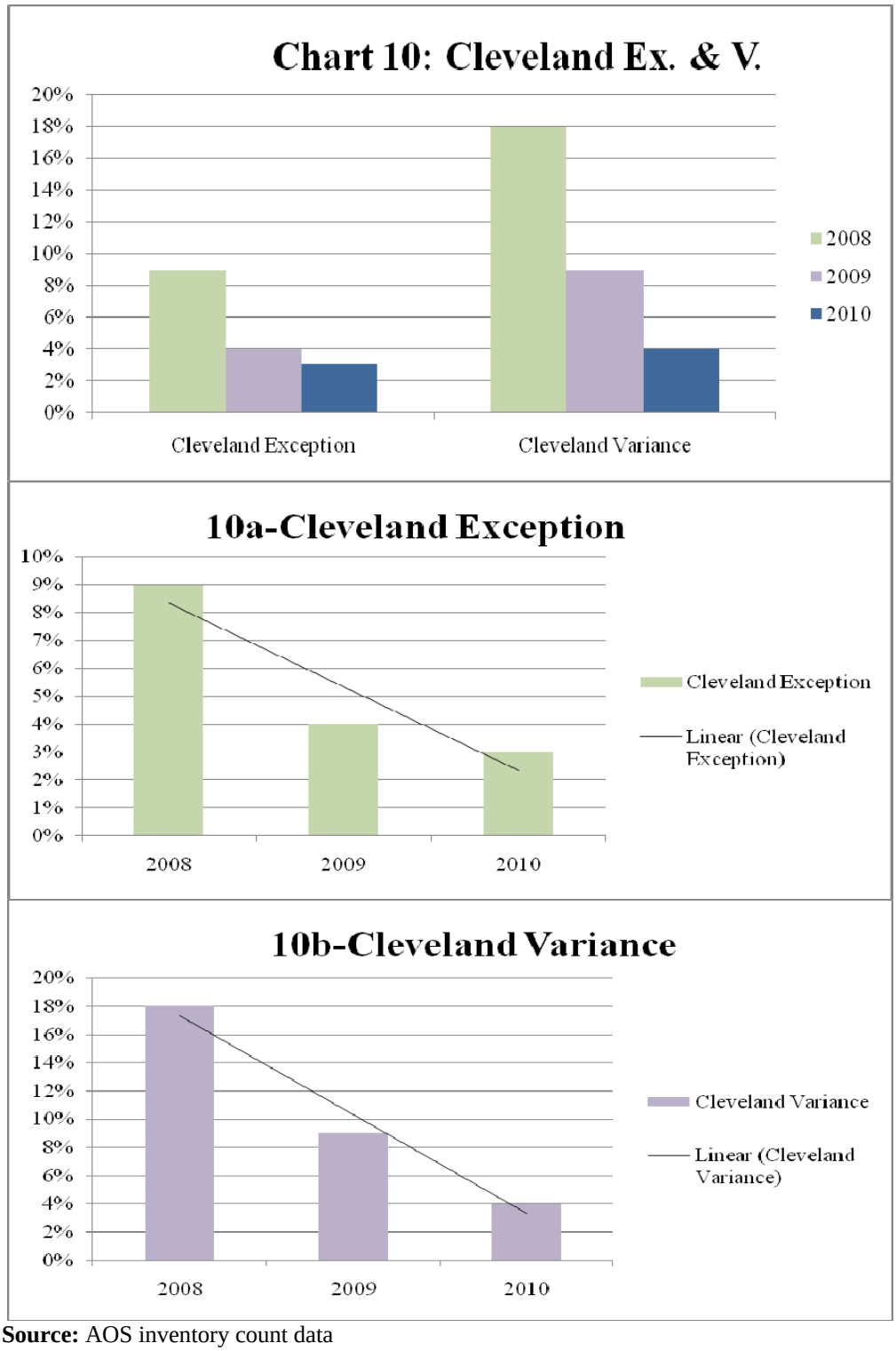
Fac#	Equipment BEAMS			Equipment AOS			Exceptions			Percent Exceptions		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
26	99	82	**83**	104	84	**84**	8	3	**1**	8%	4%	**1%**
61	25	27	**26**	25	27	**27**	5	1	**1**	20%	4%	**4%**
113	23	23	**23**	23	25	**23**	2	3	**0**	9%	12%	**0%**
191	14	14	**14**	15	14	**14**	0	0	**0**	0%	0%	**0%**
198	15	18	**18**	17	19	**18**	1	1	**0**	6%	5%	**0%**
208	76	70	**83**	79	82	**84**	3	6	**1**	4%	7%	**1%**
250	12	12	**12**	12	12	**12**	0	0	**0**	0%	0%	**0%**
257	20	21	**21**	22	21	**21**	5	0	**1**	23%	0%	**5%**
353	85	81	**71**	90	87	**77**	7	4	**8**	8%	5%	**10%**
364	113	112	**109**	114	113	**112**	7	0	**3**	6%	0%	**3%**
398	34	28	**28**	36	35	**29**	5	0	**1**	14%	0%	**3%**
403	42	43	**45**	51	48	**46**	3	2	**1**	6%	4%	**2%**
413	49	47	**48**	56	50	**49**	15	3	**2**	27%	6%	**4%**
426	49	49	**55**	50	50	**58**	0	3	**3**	0%	6%	**5%**
Total	656	627	**636**	694	667	**654**	61	26	**22**	9%	4%	**3%**

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

Table 18: District 7 Cleveland Variance 2008-10 by Facility

Fac#	Equipment BEAMS			Equipment AOS			Variances			Percent Variances		
	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**	2008	2009	**2010**
26	99	82	**83**	104	84	**84**	47	10	**11**	15%	4%	**4%**
61	25	27	**26**	25	27	**27**	39	6	**4**	52%	7%	**5%**
113	23	23	**23**	23	25	**23**	17	11	**1**	25%	15%	**1%**
191	14	14	**14**	15	14	**14**	2	1	**1**	4%	2%	**2%**
198	15	18	**18**	17	19	**18**	27	5	**2**	53%	7%	**4%**
208	76	70	**83**	79	82	**84**	45	30	**5**	19%	12%	**2%**
250	12	12	**12**	12	12	**12**	0	0	**0**	0%	0%	**0%**
257	20	21	**21**	22	21	**21**	14	3	**1**	21%	5%	**2%**
353	85	81	**71**	90	87	**77**	48	30	**23**	18%	11%	**10%**
364	113	112	**109**	114	113	**112**	22	15	**15**	6%	4%	**4%**
398	34	28	**28**	36	35	**29**	24	29	**6**	22%	28%	**7%**
403	42	43	**45**	51	48	**46**	27	12	**5**	18%	8%	**4%**
413	49	47	**48**	56	50	**49**	42	12	**3**	25%	8%	**2%**
426	49	49	**55**	50	50	**58**	20	8	**7**	13%	5%	**4%**
Total	656	627	**636**	694	667	**654**	374	172	**84**	18%	9%	**4%**

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



Source: AOS inventory count data

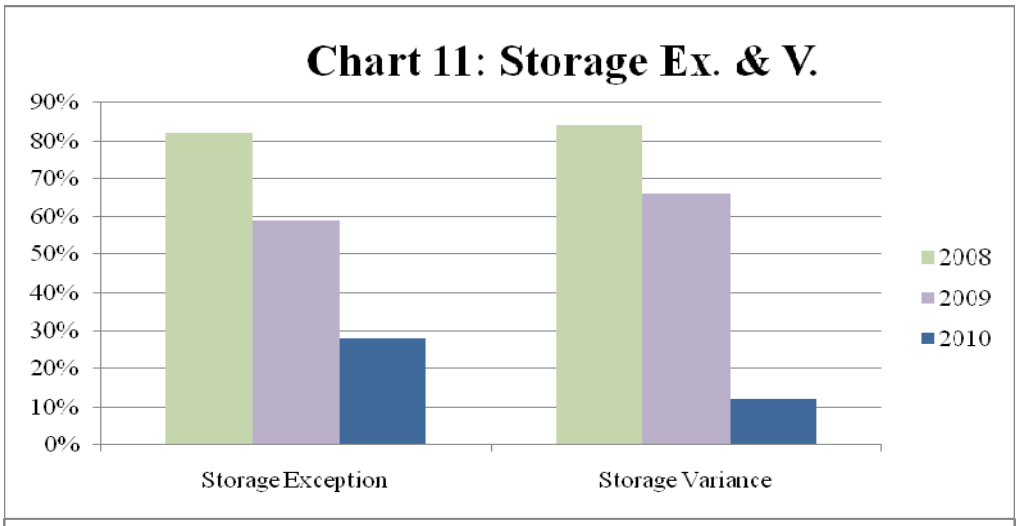
As illustrated in **Charts 10a** and **10b**, Cleveland District 7 exceptions and variances are below the 5 percent threshold. This District would be a good candidate in which to institute cyclical counting. . Exceptions were reduced from 9 percent in 2008 to 3 percent in 2010 and variances declined from 18 percent to 4 percent within the same period.

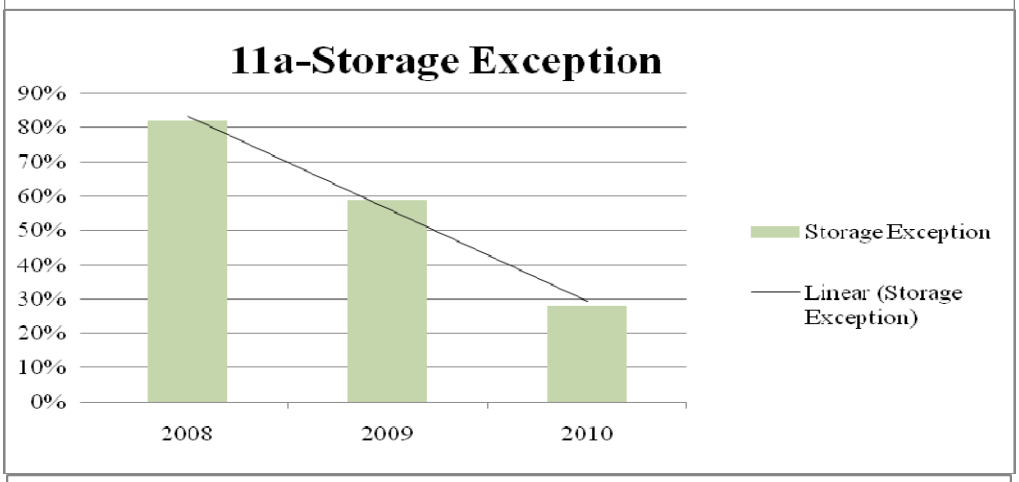
Storage of equipment for the Business Enterprise Program was consolidated into one location during 2009 based on AOS recommendations in the 2008 audit. The centralized storage approach has increased control over the equipment. The exceptions and variances noted in inventory audit of Facility 687 (the storage facility) are represented in **Table 19** and **Charts 11a** and **11b.**

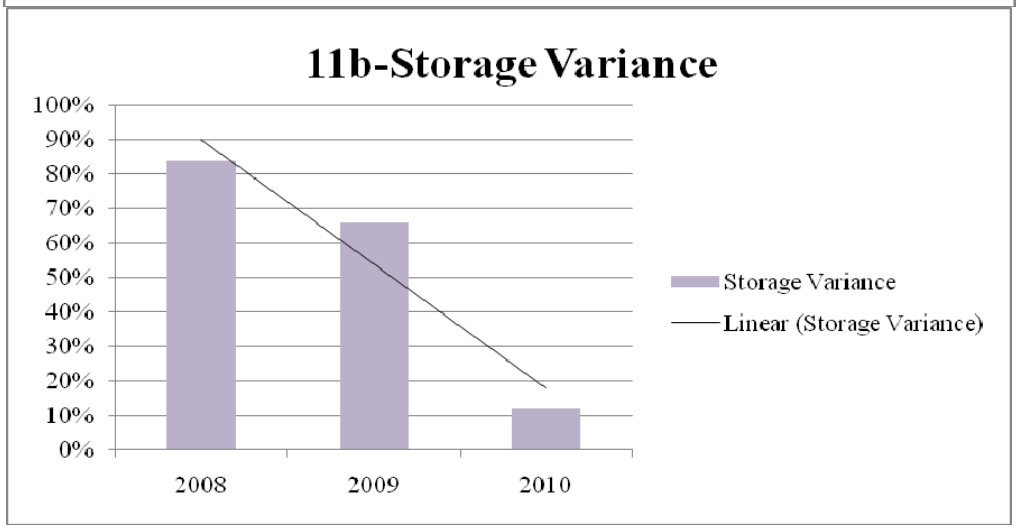
Table 19: Centralized Storage Exception and Variance Summary Comparison

Facility	AOS Equipment Count		Exceptions		Percent Exceptions		Variances		Percent Variances	
	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**
687	179	**110**	106	**31**	59%	**28%**	356	**38**	66%	**12%**

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







Source: AOS inventory count data

As illustrated in **Charts 11a** and **11b**, accounting for stored equipment for the BEP program has improved significantly over the last three years. The initial audit of the storage facilities identified exceptions of 82 percent and variances of 84 percent. The problem of maintaining inventory controls on the equipment was magnified by having six facilities at four different locations throughout the State. Moving from decentralized to centralized storage and the salvaged equipment disposal that accompanied the consolidation enabled the Agency to improve the exception and variance results. During the initial inventory test of storage in 2010, exceptions have decreased to 28 percent and variances have decreased to 12 percent. To continue the trend in improved inventory control in its centralized storage facility, BEP will need to make ongoing refinements and improvements in its procedures to accept new equipment, move equipment throughout the organization's facilities, and dispose of salvage equipment.

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.

AOS determined that the average active inventory exception percentage at all the vending facilities statewide was 14 percent in 2008. The exception percentage was 5 percent for all the active equipment throughout facilities in 2010, and had been reduced from 81 percent to 28 percent in the storage facility, reflecting BEP's ongoing effort to follow and implement the recommendation. Challenges that remain include the ongoing management and growth of the equipment inventory, the movement of existing equipment and the removal and elimination and salvage equipment that can no longer be used. Another challenge in inventory control is the need to train and educate the specialists on an ongoing basis and reinforce Agency policy and procedure. BEP has requested the assistance of the Auditor of State's Office in its delivery of Specialists statewide training.

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.

Results of the inventory by district show significant improvements in the accuracy of the equipment inventory over the past three years. As a result, several districts could be considered eligible for a revised inventory approach, transition from a wall to wall inventory to a cyclical inventory. **Table 20** summarizes the exceptions and variances for the districts reaching the minimum accuracy benchmark.

Table 20: Districts with Accuracy Exceeding 95 Percent

District	Exceptions	Variances
Cincinnati A	**97%**	**97%**
Dayton	**95%**	**96%**
Zanesville	**98%**	**96%**
Cleveland	**97%**	**96%**

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

These districts are illustrate the effect of improved inventory controls and the methods used by the managing specialists could be used by BEP in developing future inventory management procedures. 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. BEP has made consistent advances in implementing the GAO recommended practices.

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 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/RSC completed the revision of job descriptions and the supporting administrative rules and submitted the revisions to the Ohio General Assembly's Joint Committee on Agency Rule Review (JCARR). These revisions were adopted and confirmed by JCARR, and have been posted to the Register of Ohio website, published by the Ohio Legislative Service Commission providing public notice of State Agency rule making.

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 that the final disposition of assets is accurately recorded.

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

According to BEP, staff have not attended OAKS training. BEP staff should attend OAKS inventory management training to better understand OAKS system reporting capabilities. Key data, such as inventory information concerning salvage values, are maintained in OAKS. Therefore, it is critical that BEP staff improve their understanding of the system so that they can access information for decision-making and inventory evaluation.

Client Response

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

Ohio | Rehabilitation Services Commission

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Michael J Rench
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Westerville

The Honorable Mary Taylor, CPA
Auditor of State
88 E. Broad Street, Fifth Floor
Columbus, Ohio 43215-3506

October 22, 2010

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 recommendation within the audit and will address them 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 equipment inventory accountability. BEP has included the recommendations as well as steps underway for the final report.

Again, ORSC appreciates your Office's work and recommendations.

Sincerely,

Michael J Rench /cmw

Michael J Rench
Administrator

400 East Campus View Boulevard
Columbus, Ohio 43235-4604 U.S.A.
www.rsc.ohio.gov

614 | 438.1200
800 | 282.4536

2009 Recommendations

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

   The OAKS inventory management system is the statewide accounting system, DAS uses OAKS to track state asset inventory. The BEAMS inventory management system is used by RSC to maintain and track the inventory for BEP. BEP is authorized under the DAS guidelines to use BEAMS as its asset management system, which then interfaces with OAKS.

   However, BEP staff is not trained in the OAKS system and its reporting capabilities. Key data, such as inventory information concerning salvage values, are maintained in OAKS. Therefore, it is critical that BEP staff improve their understanding of OAKS so they can access information for decision-making and inventory valuation.

   Currently DAS offers several asset management classes specific to the OAKS systems like courses coded AM 201 through AM301 and that can be registered by contacting DAS. DAS-sponsored training is free to State of Ohio departments and agencies. Costs associated with the training would include travel expenses of the participant and the actual time needed to attend the trainings.

2009 Recommendation Response from ORSC

a) BEP is interested in pursuing this opportunity. To date we do not know the full capabilities of the OAKS inventory management system. Our current inventory system, as mentioned above, is part of an application called Business Enterprise Asset Management Systems (BEAMS). The benefits to using this system include the ability for staff to indicate the name of a building, the floor of the building, along with equipment identification, making it easier to locate and identify. If OAKS can or could provide the same information then switching to OAKS would be a viable option.

b) BEP will schedule and send at least two (2) key staff member to OAKS inventory management training.

2008 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.

2008 Recommendation Response from ORSC

a. 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, training is provided to all BEP staff.

AOS Status Update

In 2008, AOS determined that the average active inventory exception rate at all vending facilities state-wide was 14 percent. In 2009, the same facility active inventory exemption rate statewide decreased to 6 percent. These exceptions represent asset tagging issues where the machine and the report from the inventory control computer system could not be reconciled.

The average active variance rate for vending facilities statewide in 2008 was 21 percent. In 2009, the average decreased to 15 percent. These improvements were the result of the higher priority placed on accurately maintaining the inventory accounting for all facilities by management and staff. In addition, BEP policies and procedures were updated to reflect DAS procedures and directives.

Additional response from ORSC to 2008 AOS Status Update

a) The BEP Operations manual has been updated to reflect the latest information from DAS.
b) BE has provided training to all program staff on updated information and DAS/GSD has presented on proper methods of Salvage and Disposition of BEP assets.
c) BEP continues to strive for the minimum 95% accuracy in asset management tracking

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.

2008 Recommendation Response from ORSC

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.

AOS Status Update

In 2008 and 2009, BEP chose to contract with AOS to perform a 100 percent verification of its inventory documented in the BEAMS system. The results of the 2009 audit compared to the 2008 audit and the accuracy threshold in this recommendation indicate BEP could consider changing to another inventory model in 2010. However, risk factors should be considered prior to choosing cyclical counts. These include staff experience, the existing control environment, decentralized management, and the characteristics of the inventory.

According to the Assistant Program Director, BEP management closely reviewed barcode options and the potential to use barcode readers. At the time of the 2009 inventory, the barcode readers were not being used at the facilities or by the specialists. Counts were completed manually and compared to updated BEAMS reports provided by BEP Management. BEP Management continues to explore the

viability of a barcode system, which could further enhance their inventory controls. However, the current barcode technology may present a barrier to visually impaired operators.

Additional response from ORSC to 2008 AOS Status Update

a. The SFY 2010 agreement between ORSC and AOS, ORSC will:
    1) Ascertain with AOS the areas of the state where wall-to-wall inventories will be completed for SFY2010.
    2) Ascertain with AOS the areas of the state where cyclical inventories will be completed for SFY2010.
b. ORSC will develop with AOS training opportunities and presentations for BEP staff to reinforce the process and the importance of accurate asset reporting.

2008-3. RSC and BEP should review current position responsibilities to ensure appropriate segregation of duties for asset management. RSC and 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 and BEP better hold specialists accountable for the inventory under their stewardship.

2008 Recommendation Response from ORSC

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 is 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.

AOS Status Update

Since the release of the 2008 audit, BEP has conducted an initial review of the position descriptions and is updating these descriptions to reflect a segregation of duties where appropriate. In addition, BEP is actively soliciting business operator

input in conducting the physical equipment counts. Finally, BEP is working to further refine the accuracy of the inventory of BEP assets and improve its procedures.

Additional response from ORSC to 2008 AOS Status Update

a. ORSC has drafted the position description changes and will be reviewing them with staff and ORSC Human Resources.
b. 95% accuracy performance goal for all BEP staff as a plan of performance evaluation and measurable accountability.
c. Although no longer in BEP Ohio Administrative Code (BE Rules) the requirement for reporting BEP assets to DAS/GSD surrounds equipment records as of close of business June 30 each year.
d. As noted above BEP will maintain an active ongoing plan for training regarding asset management and control.
e. BEP Program Manager and Assistant Mangers are required to perform random facility equipment inventories.
f. BEP has is working with BEP Operators and stressing the importance of accurate asset tracking.

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 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.

AOS Status Update

Asset disposition guidelines are under review within BEP and RSC and have been tentatively revised to meet the intent of the recommendation. The disposition codes, as well as the method whereby the inventory is accounted for once it is

disposed, have been the focus of the efforts. Some equipment is salvaged or sold by bid, which is accounted for in the inventory system; however, the equipment that is traded in and used as a down payment for new equipment is not currently tracked in BEAMS.

Additional response from ORSC to 2008 AOS Status Update

a. To date the 26 disposition codes have not been added to the BEAMS software application.
b. In 2008 BEP had six (6) storage locations around the state for BEP equipment. Working with DAS, BEP has secured one (1) centralized storage facility for BEP equipment in 2009.
c. To date the improved search method has not been made available in BEAMS.