

WEST VIRGINIA LEGISLATURE

Joint Committee on Government and Finance

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Memo

To: Theford L. Shanklin, CPA, Director

From: Michael A. House, CPA, Supervisor
Timothy C. Butler, CPA, Legislative Auditor III

Date: November 12, 2003

Subject: FOLLOW-UP REVIEW OF THE SPECIAL REPORT OF THE WEST VIRGINIA SOCIETY FOR THE BLIND AND SEVERELY DISABLED (THE SOCIETY) FOR THE PERIOD JULY 1, 2000 - JUNE 30, 2002

In accordance with your instructions, we conducted a follow-up review to examine the implementation of recommendations contained in the special report of the Society for the period July 1, 2000 - June 30, 2002. In conducting this follow-up, we met with the Division of Rehabilitation Services' Interim Director Janice Holland and Brenda King, Program and Policy Senior Manager. In addition, we reviewed new policies and procedures implemented and other actions taken to comply with our recommendations and Suttle and Stalnaker, PLLC's consulting report recommendations. Our review shows controls have been strengthened and recommendations have been followed in several instances. In other instances, plans which would comply with audit recommendations have been formatted for implementation in the near future. However, in some cases, the action taken did not directly address the recommendation and in other cases, the agency did not take any action to comply with the recommendation. The nominee agreement between the Division of Rehabilitation Services (the Division) and the Society For The Blind and Severely Disabled (the Society) was revised so that the Division has assumed most of the duties previously assigned to the Society. This action is permissible under the Randolph Shepherd Act; however, the agency's action has resulted in no changes in the

number of State employees assigned to the Program. Although the agency stated in its response that it had complied with several recommendations, the agency was unable to provide us with documentation showing compliance with recommendations relating to the evaluation of facility managers, the development of warehouse policies and procedures, the revision of employee personnel manuals, the development of contract and reporting tickler lists, the development of health and safety inspection policies and procedures, or the documentation of recommended annual inspections. In addition, the agency's action did not address the recommendation that one individual should be designated to review all insurance coverage and consolidate policies ensuring the Society is adequately protected from fire, liability, damage, theft or other possible losses. Furthermore, the agency failed to take action on recommendations relating to the development of Nepotism policies and procedures; the preparation and periodic review of a comprehensive list of significant risks; or the designation of an employee to identify grant opportunities, conduct fund raising activities and assist in grant writing. The specific actions taken by the Society with respect to each finding in the report are set out in the attached summary of actions taken by the Society.

SUMMARY OF ACTIONS TAKEN BY THE SOCIETY

FUNDS GRANTED TO NON PROFIT ORGANIZATION TO PAY STATE AND FEDERAL TAXES

The Division of Rehabilitation Services awarded two grants totaling \$575,000 to the West Virginia Society For The Blind and Severely Disabled to pay accrued State tax, accrued Federal tax, a consulting contract with an accounting firm, and for accounting services.

We Recommended:

The Division should only provide the oversight required by the Randolph Shepherd Act and discontinue providing funds to a non profit corporation.

Agency Action:

The Division stated no more funds have been provided to the non-profit for the purpose of payment of state or federal taxes. The Division recovered a \$53,165.00 refund from the West Virginia State Department of Tax and Revenue for overpayment of consumer sales tax penalty and interest. These funds were refunded to the Division of Rehabilitation Services by the West Virginia Society for the Blind on July 25, 2003.

Post Audit Division Comments:

Action taken is in compliance with our recommendation.

SIX FULL TIME POSITIONS IN SOCIETY FUNDED WITH STATE AND FEDERAL MONIES

Six full time Society employees were on the Division of Rehabilitation Services personal services expenditure schedule and consequently were paid \$357,376.82 with State funds for the period October 1, 1999 through June 30, 2002.

We Recommended:

The Division of Rehabilitation Services should only provide the oversight required by the Randolph Shepherd Act and discontinue providing State funds to staff a non profit corporation.

Agency Action:

According to the Division, the relationship between the functions of the agency as the State Licensing Agency (SLA) and the Society as nominee have been clearly delineated. The Division has taken back the responsibility and direct line authority for services once provided by the Society as nominee and now has its state employees employed within the Program Services Unit, providing the direct services to licensed vendors required by the Randolph Sheppard Act including: licensure, training, maintenance, management and support services. The nominee is now responsible for the operation and administration of the highways program and during the transition year, as we phase out vendors from employees of the nominee to self-employment, the Society will continue to provide fiscal support services including payroll and accounting services to vendors who are employees of the nominee. State employees no longer provide services through the nominee. The agency has developed a revised nominee agreement that outlines the responsibilities of the Division and the Society. The revised agreement went into effect November 18, 2003.

Post Audit Division Comments:

The agency has not complied with the recommendation. The nominee agreement has been revised so that the Division of Rehabilitation Services has assumed most of the duties previously assigned to the Society. This action is permissible under the Randolph Shepherd Act; however, the agency's action has resulted in no changes in the number of State employees assigned to the Program.

THE FOLLOWING SUMMARIES REPRESENT OUR INTERPRETATIONS OF THE SUTTLE AND STALNAKER CONSULTING REPORT RECOMMENDATIONS.

VENDOR LOCATION REPORT

1. Facility Manager Compensation Structure

Suttle and Stalnaker Recommended:

The Society should consider modifying the current facility manager compensation structure. We also recommend the Society monitor the managers' financial performance over the next six to eight months and consider converting all facility managers from "employees" to "self-employed" individuals who contract with the Society or continue with the current "employee" structure for facility managers and require a set-aside fund be established to cover the operating overhead of the organization.

Agency Action:

The agency has developed a more aggressive time frame for completion of the self-employment goal for all vendors has been developed. All vendors will be self-employed by July 1, 2004. As of October, three vendors have completed all of the paperwork necessary and undergone training to successfully move into self-employment. A plan has been developed for the remaining vendors to accomplish the self employment goal.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

2. Underperforming Locations

Suttle and Stalnaker Recommended:

The Society review each vending location performing significantly below average and perform additional procedures to identify the reasons for the below average performance. If management of the Society determines that under performance is the result of the type or location of the facility, the Society should perform an analysis to determine the feasibility of the vendor location.

Agency Action:

According to the Division, all locations have been reviewed and steps have been taken to combine locations to assist vendors in earning a fair minimum return to avoid subsidy payments. Also, as part of the ongoing corrective action plan, Suttle & Stalnaker, PLLC continues to provide periodic analysis of all of the vending locations, which is utilized to identify "under performing locations. As of this date, two vendors are still in subsidy and are being reviewed by Suttle & Stalnaker and SLA staff. Both have been warned and it is anticipated that the next level of the disciplinary process will need to be pursued.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. Financial Monitoring of Vending Locations

Suttle and Stalnaker Recommended:

Society management should develop a checklist of key financial reports and statistics to assist in monitoring the various vending locations of the Society.

Agency Action:

The Division stated it continues the utilization of key indicators through Suttle & Stalnaker, PLLC in their periodic analysis of the Facility Manager locations include; cost of goods sold as a percentage of sales, gross profit percentage, other expenses as a percent of sales, and Facility Manager income as a percent of sales. The key indicators are obtained from review of RMA Financial Ratios Benchmarks and are adapted as deemed appropriate for our specific issues. Furthermore, a checklist is utilized to ensure that the appropriate individuals receive the necessary financial information from the accounting department for performing periodic monitoring of Facility Manager locations. See the additional monitoring performed as discussed under number five below.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

4. Facility Manager Evaluation

Suttle and Stalnaker Recommended:

Society management should develop a standard facility manager evaluation process to be used in evaluating each facility manager. Evaluations should be incorporated into annual analysis performed on each location to assist in the identification of possible problem facilities which may require corrective action and further review.

Agency Action:

The Division's management stated the agency and the Society has developed several checklists utilized for inspections of Facility Manager locations and operations. Inspections are now performed on all locations as follows; cafeterias are inspected monthly, vending routes are inspected annually, and snack bars are inspected every three months. The inspections are performed by the Business Counselors who are assigned to the Facility Manager location. Follow-up inspections are scheduled when deemed appropriate.

Post Audit Division Comments:

The Division was unable to provide us with documentation supporting the inspections.

5. Internal Control System

Suttle and Stalnaker Recommended:

The Society should establish internal control procedures to ensure that all financial activities of the Society are properly processed, properly approved, duties are appropriately segregated among employees, and transactions are properly documented in the underlying accounting records of the Society.

Agency Action:

According to the Division, a policy requiring meter readings/weekly cash register tapes at all locations has been adopted by the agency. Suttle & Stalnaker has been assisting with the review and monitoring of all period end reports with meter readings. An exception report is provided to the business counselors to denote any missing meter readings or cash register tapes. This report also shows variances between the readings and the information reported by the Vendor. The Business Counselors are responsible for follow-up with the Vendors.

Post Audit Division Comments:

Division personnel stated the exception reports have not been needed thus far because facility managers are complying with the established policy. Action taken is in compliance with our recommendation.

6. Purchasing Procedures

Suttle and Stalnaker Recommended:

If the Society maintains the current “employee/employer” structure, the Society should adopt and implement purchasing policies and procedures that are appropriate for facility managers to follow.

Agency Action:

The Division stated that because the Society has elected to pursue self-employment for Facility Managers, formal purchasing policies and procedures for Facility Managers have not been established. The management of the Society continues to recommend that competitive bidding and price shopping should be considered an integral part of the Facility Manager’s business practices. Furthermore, although no formalized procedures have been developed, the Society has bid several of the significant contracts, which are administered by the Society management group. These contracts include; soft drinks and juices for the Highway Rest Area’s, laundry and vending services for the Federal Correctional Institutes, etc.

Post Audit Division Comments:

No action is required since the employee /employer structure is being changed.

7. Product Mix and Sales Prices

Suttle and Stalnaker Recommended:

Society management should require facility managers to provide at the end of each period, the product mix, number of units sold by product, the cost of goods sold by product, and the current sales price for the product.

Agency Action:

The Division stated the Society and agency staff continue to monitor location product pricing and have evaluated pricing and made changes based on the local market.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

8. Facility Manager Qualifications

Suttle and Stalnaker Recommended:

The Society should develop a model of facility manager qualifications to be used for contracting with all facility managers. This model should incorporate Federal law requirements, but should also address physical requirements, educational requirements, functional abilities, and social skills.

Agency Action:

According to the Division, its management and the Society have developed several core competencies which are utilized during the inspection and which are outlined in the personnel manual. These core competencies summarize the Facility Manager qualifications, which are required. In addition, financial core competencies have been developed and are being tested prior to moving the Vendor to self-employment.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

9. Feasibility Analyses

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures for conducting feasibility analyses for all new potential locations. Management should review actual vending location results in comparison to the original analyses to determine if changes to the feasibility analysis process should be made to more accurately reflect the actual operation results.

Agency Action:

According to the Division, all Facility Manager locations are reviewed annually for feasibility of the current structure. Agency staff and Society management continue to work with the Blind Vendor Committee, individual Facility Managers, the Federal Rehabilitation Services Administration (RSA) and General Services Administration (GSA) representatives, and the various State and Federal Building officials throughout the State of West Virginia to identify locations where feasibility analyses have determined that the current structure needs to be changed. In response to this analysis, several locations have been downgraded from snack bars to vending and some locations have been relinquished such as the cafeteria operations in Morgantown.

The Division stated its management and the Society continues to monitor building demographics including population, services offered and guidance provided by the Federal RSA officials and appropriately pursues changes in current locations as deemed appropriate.

Post Audit Division Comments:

The agency's action is in partial compliance since they are reviewing current locations to determine the feasibility of the current structure. However, they have not addressed conducting feasibility analyses of potential locations.

10. Facility Manager Subsidy - Federal Minimum Wage

Suttle and Stalnaker Recommended:

If the Society decides to maintain the current "employee/employer" structure, the Society should revise and clarify the subsidy policy and related procedures regarding subsidizing facility managers to the Federal minimum wage. In addition, the Society should ensure that subsidy amounts are collected within a timely manner.

Agency Action:

The Division stated although it has decided to pursue self-employment for Facility Managers, agency management clarified the current Facility Manager Subsidy policy in the new policy and procedure manual issued March 10, 2003. Furthermore, management of the Society continues to monitor Facility Manager Subsidy on a period-to-period basis and requires corrective action from Facility Managers who are in subsidy for more than

four consecutive periods. In addition, each period, the Facility Manager's receive a memo listing the amount of subsidy owed to the Society. As a result of this ongoing monitoring, the Society has substantially reduced the number of Facility Manager's on Subsidy. At this time, only two facility managers are on subsidy and one is repaying subsidy amounts with scheduled payments.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

11. Closing Out of Financial Records

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures regarding the closeout of locations and the reports and supporting documentation required from facility managers.

Agency Action:

The Division stated its management and the Society continue to work with individual Facility Managers and the Blind Vendor's Committee as deemed necessary to ensure that all financial records are obtained when a location is closed. Business counselors meet with Facility Managers and assist them with the preparation of the required reports and location of any missing information. Typically this information is obtained before the final settlement check is issued to the Facility Manager. All locations will be inventoried and closed out as the vendors move into self-employment.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

WAREHOUSE OPERATIONS REPORT

1. Warehouse Financial Performance

Suttle and Stalnaker Recommended:

Management should continue warehouse operations on a temporary basis to determine if the financial performance can be improved from implementation of the following recommendations.

Agency Action

According to the Division, the Society's management has continued operations of the warehouse and has made significant changes to the structure and staffing to improve

operations. As a result of these changes, the warehouse has a reported net income of approximately \$7,600 for the year ended June 30, 2003.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

2. Breakeven Point Analysis

Suttle and Stalnaker Recommended:

Society management should work together with the facility manager committee to develop methods to increase sales consistently to the breakeven point of \$35,000 each period. Management should consider implementing incentive plans and using a dual markup percentage methodology to encourage facility manager participation in purchasing from the warehouse.

Agency Action:

The Division stated the Society's management continues to monitor the breakeven point of the warehouse operations. Through significant analysis and research, the Society has worked with Facility Managers to obtain additional sales for the location and has streamlined the overall operations of the warehouse, which has reduced the cost of operations and the breakeven point. In addition, through competitive pricing of purchases, and moving to a just-in-time inventory method, the Society has obtained significant additional cost reductions, which has resulted in a reduction of the breakeven point.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. Warehouse Financial Performance

Suttle and Stalnaker Recommended:

Management should develop policies and procedures related to the operation and management of the warehouse.

Agency Action:

According to the Division, the Society's management has continued to modify the policies and procedures of the warehouse.

Post Audit Division Comments:

The Division was unable to provide us with any written warehouse policies or procedures.

4. **Warehouse Delivery Schedule**

Suttle and Stalnaker Recommended:

Society management should continue to improve the current delivery schedule to ensure an efficient and cost effective delivery schedule is in place. In addition, management should consider the delivery needs of each vending location and determine whether adequate storage space exists for certain locations to permit biweekly deliveries instead of weekly deliveries.

Agency Action:

The Division stated the warehouse delivery schedule is efficient and monitored by Society management to ensure continued efficiency.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

5. **Warehouse Marketing Plan**

Suttle and Stalnaker Recommended:

The Society should develop a plan for the marketing of the warehouse to facility managers. Management should consider obtaining vendor input related to markup, products offered for sale, and other significant product related information which could assist management in obtaining additional sales from vendors.

Agency Action:

According to the Division, the management of the Society has held numerous meetings with the Facility Manager Committee and various Facility Managers to obtain active participation and input on improvements to the warehouse. As a result of these meetings, the Society has worked to improve the service, products, and cost of the warehouse. Facility Managers are now contacted regarding special incentive programs that the warehouse periodically provides. In addition, management of the Society has worked with Facility Managers on a one on one basis to establish new customers and product sales.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

6. **Product Mix**

Suttle and Stalnaker Recommended:

The Society should monitor sales of all items and consider new products to determine which products may increase sales at the vending locations.

Agency Action:

The Division stated the Society is currently utilizing the Peachtree accounting system for inventory management. This system is able to provide numerous reports for the management and easy analysis of inventory products and sales. The Division added that the Society pilots new products to determine their feasibility in the market conditions of its locations. Through a partnership with the Facility Managers, suppliers, and the Society, all products are now monitored and slow moving products are not purchased.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

7. Procurement of Vending Products

Suttle and Stalnaker Recommended:

Society management should consider a competitive procurement process for the vending supply contract. Management should also determine the feasibility of purchasing direct from various manufacturers to take advantage of wholesale discounts.

Agency Action:

The Society currently utilizes two major suppliers for the purchase of vending products. These suppliers compete on service and cost on a weekly basis as the Society continues to work to reduce the overall cost of purchases.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

8. Inventory Accounting System

Suttle and Stalnaker Recommended:

Should the Society retain the warehouse, management should purchase an inventory accounting program or use the inventory program in Peachtree Accounting software.

Agency Action:

The Society currently utilizes the Peachtree Accounting System inventory accounting module.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

9. Facility Manager Participation

Suttle and Stalnaker Recommended:

If the Society maintains the current employee versus self employment structure, Society management should consider requiring minimum orders each period from all facility managers in the program.

Agency Action:

Vendor Facility participation continues to improve.

Post Audit Division Comments:

Since the agency is currently converting facility manager employees to self employment, no further action is required.

HIGHWAY REST AREAS VENDING MACHINES
ANALYSIS REPORT UPDATE AS OF JUNE 30, 2001

1. Relocation of Vending Machines at Rest Areas

Suttle and Stalnaker Recommended:

The Division and the Society should continue to work with the Division of Highways to ensure that a plan is negotiated to either relocate the vending machines in the rest area buildings until renovation is imminent or build additional protective coverings over the vending machines to allow protected access to the machines.

Agency Action:

According to the Division, the management of the Society has developed a rapport with the West Virginia Department of Transportation, Division of Highways personnel and have met on several occasions to discuss the relocation of vending machines at rest areas. The Society continues to pursue the placement of awnings to protect equipment and customers at rest areas. The Society anticipates meeting with the West Virginia Department of

Transportation, Division of Highways to further discuss this plan and to continue pursuing the relocation of vending machines inside rest areas where feasible.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

2. Employee Hours Management

Suttle and Stalnaker Recommended:

Society management should continue to study the effect of the hours reduction to determine the most effective manner to deliver services and provide employment opportunities for the severely disabled.

Agency Action:

According to the Division, sales at the highway rest areas are monitored on a monthly basis. Employee hours from September through May are reduced to reflect the reduction in sales during this period. Other changes in staffing include having individuals cover multiple Highway locations and other cost savings ideas generated by the Society management team.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. Staffing Structure

Suttle and Stalnaker Recommended:

The Society should consider our recommendation as reported in the March 2001 report.

Agency Action:

The Division stated the staffing structure is monitored by Suttle & Stalnaker and Society management. The current structure appears to be more efficient and cost effective. The Society has combined employee stocking responsibilities at several of the sites and thus eliminated operational costs.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

4. Underperforming Sites

Suttle and Stalnaker Recommended:

The Society should continue to review each vending site performing significantly below average and perform additional procedures to identify the reason for the below average performance. Society management should also monitor each location's financial reports on a period basis and perform additional analyses or procedures at vending locations that are performing below predetermined levels.

Agency Action:

According to the Division, management of the Society continues to monitor all rest area vending locations and it is the responsibility of the highway supervisor to follow-up on any "under performing locations" as deemed appropriate. The highway supervisor obtains weekly meter readings from the various rest area vending locations and compares the amount to the weekly reports submitted. Also, as part of the ongoing corrective action plan, Suttle & Stalnaker, PLLC continues to provide periodic analysis of all of the rest area vending locations, which is utilized to identify "under performing locations."

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

5. Pricing Strategy

Suttle and Stalnaker Recommended:

We recommend the Society continue to review the pricing strategy for the Highways Rest Area vending locations and periodically compare their sales prices to local convenience stores in the areas. We also recommend that the Society consider piloting vending locations with lower performance with a higher price increase of \$.05 or \$.10 higher than the average to determine the effect on unit sales of the pricing increase.

Agency Action:

The Division stated pricing information from surrounding States and local area pricing data is now received periodically and compared to the pricing within West Virginia. In addition, prices are adjusted at the Highway locations when increases in cost occur.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

6. Number of Vending Machines and Frequency of Restocking

Suttle and Stalnaker Recommended:

Our March 2001 report recommended that the Society analyze Highway Rest Area vending machines to determine the number of days machines could go unattended without running out of stock. In addition, we recommend the Society work with other State agencies to identify potential vending sites not currently served by the Society. We recommend the Society implement this recommendation.

Agency Action:

The Division stated the Highway's Supervisor is responsible for monitoring the stocking and related other vending activities of Highway locations.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

7. Product Mix

Suttle and Stalnaker Recommended:

In our March 2001 report we recommended the Society monitor sales of all items and consider if stocking new products may result in increased sales at various locations. Due to staffing constraints, this data has not been analyzed; therefore, management should develop reports to assist in analyzing sales and implementing new sales strategies based on the analysis.

Agency Action:

According to the Division, the Society continues to utilize the Peachtree accounting system for inventory management. This system provides numerous reports for the management, which enhances the analysis of inventory products and sales. Also, the Society pilots new products to determine their feasibility in the market conditions of its locations. Through a partnership with the suppliers and the Society, all products are now monitored and slow moving products are not purchased.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

FEDERAL PRISON CAMP REPORT CONTRACT REVIEW REPORT

1. Contract with Department of Justice

Suttle and Stalnaker Recommended:

The Society should clarify with the Department of Justice that commissions remitted to the Department of Justice should include sales only and not consumer sales tax.

Agency Action:

The Division stated it has prepared new contracts and is currently negotiating prices with all of the Federal Prison's served.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

2. Federal Prison Camp Location Performance

Suttle and Stalnaker Recommended:

The Society should consider identifying other facility managers who may be qualified to operate the Beckley and Alderson Federal Prison Camp locations and evaluate the vendor compensation structure as it pertains to losses incurred by the Society.

Agency Action:

According to the Division, the Beckley and Alderson Federal Prison Camp locations are now bid annually to allow eligible Facility Managers the opportunity to obtain a new location. In the latest bid, a Facility Manager in Charleston was awarded the Beckley location; however, no Facility Managers bid on the Alderson location. Also, the new Glenville Federal Prison Camp was awarded to a Facility Manager currently in Morgantown. The Alderson Federal Prison Camp will continue to be bid annually until an eligible Facility Manager bids.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. Pricing Strategy

Suttle and Stalnaker Recommended:

The Society should review the pricing strategy for the Federal Prison Camp locations and periodically compare their sales prices to the cost of goods to determine when price increases may be necessary.

Agency Action:

The Division stated it has developed new contracts and is currently negotiating prices.

Post Audit Division Comments:

Developing new contracts does not address the recommendation. The agency needs to develop procedures for comparing sales prices to cost of goods and for determining when price increases are necessary.

4. Vending Machine Meter Readings

Suttle and Stalnaker Recommended:

The Society should ensure all vending sub-contracts include appropriate clauses regarding the scheduling of meter readings, including debitek meter readings, on mutually agreed upon dates and times to ensure accurate meter readings are taken at each vending location.

Agency Action:

The Division stated meter reading dates and times are set monthly. Readings are taken and billings are submitted to the Department of Justice based upon those readings. For cash sales, sub-contractors submit meter reading reports and commission checks for those sales.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

5. Sub-contract Agreements

Suttle and Stalnaker Recommended:

If these locations cannot be transferred to facility managers, the Society should consider rebidding the sub-contract agreements. Further, the Society should consider whether facility managers are legally available to bid on the Federal prison camps to replace the sub-contract agreements.

Agency Action:

The Division stated if these locations cannot be transferred to facility managers as recommended, the Society rebids the commercial vending service sub-contract agreements to ensure that the Society is receiving the best quality service and maximum commission return from the sub-contractor. During the procurement process, the Society has consulted additional commercial vending companies in an effort to ensure a competitive bid process

is obtained. The Division added that legal counsel determines if a facility manager is legally available to bid on each facility.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

6. Sub-contract Agreements - Contract Provisions

Suttle and Stalnaker Recommended:

Any new sub-contractor agreements should define who is responsible for consumer sales tax, how commissions are calculated, when debitek meter readings are required, and a time frame for remittance of commissions to the Society from cash vending collections.

Agency Action:

The Division stated for any new sub-contracts, the agreements include appropriate language concerning who is responsible for consumers' sales tax, how commissions are calculated, when debitek meter readings are required, and a time frame for remittance of commissions to the Society from cash vending machines as recommended. The Society has an attorney review the contract agreements for adequacy and other provisions which could limit the Society's exposure to legal liability.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

CAFETERIA REVIEW REPORT

1. Cafeteria Financial Performance

Suttle and Stalnaker Recommended:

No recommendation specified.

Agency Action:

No recommendation specified.

Post Audit Division Comments:

No action required.

2. **Contract Negotiations with the National Mine Health and Safety Academy**

Suttle and Stalnaker Recommended:

The Society should attempt to renegotiate the contract with the Academy to ensure the cafeteria is able to operate at a breakeven point. The Society should also renegotiate the wages and benefits with the Union labor representative to reduce wages and overhead incurred at this location.

Agency Action:

According to the Division, it submitted a response to the Request For Proposal (RFP) for the National Health & Safety Mining Academy based upon the Society's experience with cafeteria operation. The bid was awarded to another company. The Division did not relinquish the Randolph Sheppard rights for the facility but cannot operate it under the restrictions of the RFP without losing money. The Society's attorney has requested through the Freedom of Information Act a copy of the winning bidder's proposal for review.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. **Management of Facility - Academy**

Suttle and Stalnaker Recommended:

The Society should review the management contract structure with the Academy and consider the reduction of one full-time management position at the Academy location.

Agency Action:

According to the Division, it submitted a response to the Request For Proposal (RFP) for the National Health & Safety Mining Academy based upon the Society's experience with cafeteria operation. The bid was awarded to another company. The Division did not relinquish the Randolph Sheppard rights for the facility but cannot operate it under the restrictions of the RFP without losing money. The Society's attorney has requested through the Freedom of Information Act a copy of the winning bidder's proposal for review.

Post Audit Division Comments:

Since the National Health and Safety Mining Academy is no longer operated by a facility manager, no action is required.

4. **Compliance with Contract Provisions - Academy**

Suttle and Stalnaker Recommended:

The Society should review the contract provisions and implement policies and procedures to ensure the Society remains in compliance with all contract provisions and requirements.

Agency Action:

According to the Division, it submitted a response to the Request For Proposal (RFP) for the National Health & Safety Mining Academy based upon the Society's experience with cafeteria operation. The bid was awarded to another company. The Division did not relinquish the Randolph Sheppard rights for the facility but cannot operate it under the restrictions of the RFP without losing money. The Society's attorney has requested through the Freedom of Information Act a copy of the winning bidder's proposal for review.

Post Audit Division Comments:

Since the National Health and Safety Mining Academy is no longer operated by a facility manager, no action is required.

5. Internal Control - Cafeterias

Suttle and Stalnaker Recommended:

The Society should implement policies and procedures related to internal controls at all three cafeteria locations.

Agency Action:

The Division stated only one cafeteria locations exists currently. The financial activity of the Parkersburg cafeteria location is monitored monthly and any unusual activity if investigated and resolved by the Business Counselor.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

MANAGEMENT REPORT

Organizational Structure

1. Management and Central Office Team

Suttle and Stalnaker Recommended:

Based on the current Society operations, we recommend a management structure with two less positions in total than in the previous structure of the Management and Central Offices Team. It should be reviewed annually to determine the continuing adequacy of the structure.

Agency Action:

According to the Division, its functions and the nominee functions have been separated by the agency. The nominee currently is responsible for fiscal, the Highways Program, and the warehouse. The Division's staff provide management services, contract management and negotiation, maintenance and licensure and training for the Randolph Sheppard program. As the Society moves closer to self-employment for Facility Manager's the organization structure will again be reviewed and modified to incorporate the new organizational structure.

Post Audit Division Comments:

The agency has not complied with the recommendation. The "management structure" of the operations has been "redesigned" so that the Division of Rehabilitation Services has assumed most of the duties previously assigned to the Society. However, there has been no overall reduction in the number of management positions.

2. Management - Job Descriptions

Suttle and Stalnaker Recommended:

Written job descriptions should be developed for top management and that these job descriptions be defined in somewhat broader categories than descriptions for lower level employees so as not to inhibit top management's creativity or present undue barriers for good performance.

Agency Action:

The Division stated job descriptions have been developed as recommended.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

3. Management Meetings

Suttle and Stalnaker Recommended:

Key members of the Society management team should meet initially on at least a bi-weekly basis to discuss opportunities, problems, scheduling, and other pertinent management information. Staff meetings involving all Society employees should be scheduled and held monthly to assist in communication with all Society employees.

Agency Action:

The Division stated that the current Administrator of the Society and management representatives from the agency meet regularly to discuss current issues and trends. In addition, the Senior Manager assigned by the West Virginia Division of Rehabilitation Services meets with these individuals and Suttle & Stalnaker, PLLC on a weekly basis to discuss the status of corrective action, financial trends, cash flows, and other issues. Furthermore, staff meetings are held periodically to communicate to the staff of the Society located in Institute.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

4. Employee Scheduling

Suttle and Stalnaker Recommended:

The Society should require all employees, in coordination with their supervisor, develop a weekly schedule to identify goals to be accomplished during the week and be approved by the employee's supervisor.

Agency Action:

The Division stated employee scheduling and reporting criteria have been set and are adhered to by Society and agency staff as recommended.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Budgeting and Long Range Planning

5. Long Range Planning

Suttle and Stalnaker Recommended:

The Society should develop a long-range plan that should include capital budgeting, cash forecasting, and identification of new areas or missed opportunities. In addition, the Society should identify a team whose responsibility would be to review missed opportunities for new sites.

Agency Action:

According to the Division and due to financial constraints and other issues identified, the Society has used the report generated by Suttle & Stalnaker, PLLC as a long-range plan until a more comprehensive plan can be developed. Short-term goals have been identified and are reflected in a GANT chart available for review.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

6. Budgets

Suttle and Stalnaker Recommended:

Management should prepare an annual budget for approval by the Board of Directors. Monthly budget versus actual comparisons should be provided to key members of management and the Board of Directors.

Agency Action:

The Division stated Suttle & Stalnaker and Society administration work together to prepare and monitor Society budgets. Financial information is reported to the Society's Board at monthly board meetings.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

7. Capital Budgets

Suttle and Stalnaker Recommended:

The Society should prepare a five year capital budget which includes information such as equipment identified for replacement and anticipated growth for the Society.

Agency Action:

According to the Division, monies have been "set aside" in its internal budget for equipment purchases and replacement. In addition, the operating budget of the Society includes a budgeted line item for "depreciation" which is anticipated to be the capital budget line item.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Policies and Procedures

8. Accounting/Payroll Policies and Procedures Manual

Suttle and Stalnaker Recommended:

The Society should maintain an accounting/payroll policies and procedures manual, which documents all accounting/payroll applications and related controls. The manual should contain general policies as well as specific procedures and identify who is responsible for performing procedures.

Agency Action:

The Division stated policies and procedures have been established for the highway's rest area, warehouse, basic accounting function, and the payroll process. These procedures will continue to be enhanced and revised as the structure of the Society continues to change during the next fiscal year.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

9. Employee Personnel Manual

Suttle and Stalnaker Recommended:

The management of the Society should revise and update the employee personnel manual and insure that each employee receives and signs for a copy of the new manual.

Agency Action:

The Division stated through a joint effort with the Society, Facility Manager Committee, and representatives of the agency, an employee personnel manual has been revised and issued to all employees.

Post Audit Division Comments:

The agency has not developed employee personnel manuals for all of its staff; therefore, the agency has not complied with this recommendation.

10. Nepotism Policy

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures regarding the participation of spouses and other relatives in vending facility business.

Agency Action:

As of the date of this letter, no action has been taken regarding this recommendation. Because of the vendors' visual impairment, many utilize family members to assist and to provide transportation. This occurs nationally. When the vendors become self-employed, this will no longer be an issue.

Post Audit Division Comments:

No action has been taken.

11. Records Retention Schedule

Suttle and Stalnaker Recommended:

The Society should establish a records retention schedule for records retention and destruction of accounting records and documents that are not needed. Further, management should review all personnel and vendor files to ensure they contain all required information.

Agency Action:

The Division stated substantial effort has been made to maintain accountability over records and to ensure that records are retained for review. The Society does have a record retention schedule and utilizes the schedule for retention of records.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

12. Employee Evaluations

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures for employee evaluations and require at least annual evaluations which are utilized in determining pay raises and promotions.

Agency Action:

Employee evaluations are conducted annually.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

13. Members of the Corporation

Suttle and Stalnaker Recommended:

The Board of Directors and the Division should review who is chosen to be a corporation member and how those choices are made.

Agency Action:

According to the Division, the report issued by Mississippi State University addressed the Board Structure and provided recommendations for future changes; however, as noted above, the organizational structure and use of the nominee is currently under review. Once this review is completed the appropriate changes will be made to the Board structure and by-laws. In order to accomplish this goal, the Application for Designation, the by-laws, and the state law must be rewritten.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

14. Board of Directors

Suttle and Stalnaker Recommended:

The Board of Directors and Division management should review the bylaws regarding the establishment of the Board of Directors and consider a reorganization of the Board structure. The Board should have more members and should be of a diverse composition to ensure an independent and objective board made up of individuals from different disciplines.

Agency Action:

According to the Division, the report issued by Mississippi State University addressed the Board Structure and provided recommendations for future changes; however, as noted above, the organizational structure and use of the nominee is currently under review. Once this review is completed the appropriate changes will be made to the Board structure and by-laws. In order to accomplish this goal, the Application for Designation, the by-laws, and the state law must be rewritten.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

15. Board Meetings and Minutes

Suttle and Stalnaker Recommended:

The Board of Directors should establish a regular meeting schedule and ensure at least four meetings annually. Minutes of meetings should be prepared in a timely fashion and be maintained on file at the Society's central office.

Agency Action:

The Division stated the Board of Directors currently meets a minimum of four times during a year and holds conference call meetings as deemed necessary. Minutes of these meetings are prepared after each meeting and provided to all Board of Directors. These minutes are maintained at the Society office for review.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

16. Amendments to Bylaws

Suttle and Stalnaker Recommended:

Management should amend the bylaws of the organization to update provisions no longer applicable to its operation.

Agency Action:

According to the Division, the report issued by Mississippi State University addressed the Board Structure and provided recommendations for future changes; however, as noted above, the organizational structure and use of the nominee is currently under review. Once this review is completed the appropriate changes will be made to the Board structure and by-laws.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Internal Control

17. Internal Control System

Suttle and Stalnaker Recommended:

The Society should establish internal control policies and procedures to ensure that all financial activities of the Society are properly processed and properly approved, that duties are appropriately segregated among employees, and the transactions are properly documented in the underlying accounting records of the Society.

Agency Action:

The Division stated the Society's management has made significant changes to the internal control system and continues to adapt the internal control system on a monthly basis as deemed appropriate.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

18. Purchasing Procedures

Suttle and Stalnaker Recommended:

The Society should adopt and implement purchasing policies and procedures to enhance and strengthen internal controls and provide for competitive open market purchases.

Agency Action:

The Division stated since the Society has elected to pursue self-employment for Facility Managers formal purchasing policies and procedures for Facility Managers have not been established. Furthermore, although not formalized procedures, the Society has bid several of the significant contracts, which are administered by the Society management group. These contracts include; soft drinks and juices for the Highway Rest Area's, laundry and vending services for the Federal Correctional Institutes, etc. Formal purchasing procedures will be incorporated into the accounting/payroll policy and procedures manual.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

19. Financial Monitoring

Suttle and Stalnaker Recommended:

Management of the Society should develop a checklist of key financial reports and statistics to assist in monitoring the various operations of the Society. The checklist should include the reports to be prepared as well as who is responsible to prepare it.

Agency Action:

The Division stated a checklist is utilized to ensure that the appropriate individuals receive the necessary financial information from the accounting department for performing periodic monitoring and analysis. Also, as part of our corrective action plan, Suttle & Stalnaker, PLLC provides periodic analysis and key financial reports to management of the Society and the Board of Directors.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

20. Property and Equipment Inventory

Suttle and Stalnaker Recommended:

The Society should develop a system to maintain property and equipment records and require an annual inventory.

Agency Action:

The Division stated a complete physical inventory has been taken by the Society. All assets greater than \$500 have been tagged with the West Virginia Division of Rehabilitation Services property identification tags. All of this property and equipment is considered the property of the Division has been appropriately insured by the Division. All asset less than \$500 that have been purchased with funds from the nominee are included on a physical inventory and are considered the property and equipment of the Society. All inventory owned by the State of West Virginia have been removed from the financial statements of the Society.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

21. Food and Beverage Inventory Counts

Suttle and Stalnaker Recommended:

The Society should require physical inventories segregated into food, beverage and supplies classifications at the end of each period. Management should conduct random counts at various locations to ensure compliance.

Agency Action:

The Division stated since the Society has elected to pursue self-employment for Facility Managers, physical inventories have not been required at the end of each period; however, a physical inventory is taken annually as of June 30. Also, physical inventories are

performed when a Facility Manager moves into self-employment, changes locations or when deemed appropriate by a Business Counselor.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

22. Contract and Reporting Tickler List

Suttle and Stalnaker Recommended:

Management of the Society should develop a contract and reporting tickler list which includes all significant contracts and reporting requirements/commitments of the Society.

Agency Action:

The Division stated a partial contract and reporting tickler list has been developed based upon information provided to date. This list continues to be updated and revised as deemed appropriate.

Post Audit Division Comments:

The Division was unable to provide us with a contract and reporting tickler list.

23. Federal and State Taxes Tickler List

Suttle and Stalnaker Recommended:

The Society should develop a tickler list for all state and federal payment and reporting requirements. The accountant should provide an updated report at least monthly to the Director.

Agency Action:

According to the Division, Suttle & Stalnaker, PLLC has developed a federal and state tax tickler list for management of the Society as recommended. Furthermore, a monthly calendar is prepared which summarizes all of the significant federal and state taxes due.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

24. Approval of Salaries

Suttle and Stalnaker Recommended:

The Board of Directors' minutes should include annual documentation of the Board's approval of salaries and hourly rates by individual.

Agency Action:

The Division stated all salaries are approved by the Society's Board of Directors.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

25. Filing and Security of Accounting Records

Suttle and Stalnaker Recommended:

The monthly general ledger and supporting journals should be properly labeled and filed each month. A separate file should be maintained for each journal and all records should be filed in a secure location. A checklist should be maintained to ensure all reports are properly printed and filed as required.

Agency Action:

The Division stated a checklist has been developed with the monthly list of reports and financial information to be printed and filed for review as recommended. In addition, under the direction of Suttle & Stalnaker, PLLC, a new filing system was developed and is currently utilized for all financial related records. Confidential records such as personnel files and the on-sight safe have been moved are now stored under lock in the Administrator's office.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Training Program

26. New Vendor Training Program

Suttle and Stalnaker Recommended:

The existing training program for new vendors should be revised to ensure new vendors are adequately trained to manage and operate a vending location. Existing vending locations should continue to be used as vendor training sites.

Agency Action:

The Division stated since the Society has elected to pursue self-employment for Facility Managers a new Facility Manager training program has not been developed. With the results of joint task force and move to self-employment finalized, management of the Society is working with Mississippi State University and Suttle & Stalnaker, PLLC to develop a new Facility Manager training program structured for self-employment. University personnel will be coming in to begin work on this training package November 5-6, 2003.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

27. Annual Vendor Training Program

Suttle and Stalnaker Recommended:

Management should consider annual training seminars for existing vendors to provide information regarding management and operation of vendor locations.

Agency Action:

The Division stated the first training program will begin in January 2004.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

28. Merchandising and Market Analysis

Suttle and Stalnaker Recommended:

The Society should develop a merchandising and market analysis training program. Further management of the Society should work with facility managers to identify strategies for displaying, promotion and advertising.

Agency Action:

The Division stated this will be included in the new training program developed with the input of Mississippi State University. The first training program will begin in January 2004.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

29. Promotional Activities

Suttle and Stalnaker Recommended:

The Society should develop promotional activities which incorporate strategies to stimulate sales, increase customer traffic, build patronage, reward customers and clean out older stock.

Agency Action:

Although not formalized, the Division stated the management of the Society has worked with the Facility Managers and other employees to offer various promotional activities. Some of these include piloting of new products, discounts for bulk purchases, discounts for slow moving inventory items, etc. Additional promotional activities will be developed when deemed appropriate.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Vendor Monitoring and Analysis

30. Timely Vendor Reporting

Suttle and Stalnaker Recommended:

Management of the Society should develop policies and procedures regarding the submission of weekly reports, supporting information and bi-weekly time sheets including consequences of untimely submission of those items.

Agency Action:

According to the Division, a weekly checklist is now maintained by the Bookkeeper at the Society, which summarizes when the weekly reports are received, approved, and posted. Habitually late weekly reports are followed up on by the appropriate Business Counselors, Highway's Supervisor, or Administrator. Personnel action is taken as deemed appropriate.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

31. Vendor Location Monitoring

Suttle and Stalnaker Recommended:

The Society should develop internal controls to monitor sales and expenses at each vendor location and ensure each location is performing at the “industry average”. Procedures for controls should include spot checks by Society management, meter readings from vending machines, cash register tapes and production reports.

Agency Action:

The Division stated the Society’s management has made significant changes to the internal control system and continues to adapt the internal control system on a monthly basis as deemed appropriate. Also, as part of our ongoing corrective action plan, Suttle & Stalnaker, PLLC continues to provide periodic analysis of all of the vending locations, which is utilized to identify “under performing locations. Fiscal reviews by the administrative personnel and Suttle & Stalnaker, PLLC are conducted on an as needed basis when significant problems have been identified.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

32. Vendor Location Performance

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures for monitoring vendor location performance including determining what locations should be closed and procedures for doing so.

Agency Action:

The Division stated some of the key indicators utilized by Suttle & Stalnaker, PLLC in their periodic analysis of the Facility Manager locations include; cost of goods sold as a percentage of sales, gross profit percentage, other expenses as a percent of sales, and Facility Manager income as a percent of sales. The key indicators are obtained from review of RMA Financial Ratios Benchmarks and are adapted as deemed appropriate for our specific issues. Furthermore, a checklist is utilized to ensure that the appropriate individuals receive the necessary financial information from the accounting department for performing periodic monitoring of the various vending locations.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

33. New Facility Market Analysis

Suttle and Stalnaker Recommended:

Management of the Society should develop a model facility market analysis which incorporates all significant factors which may effect the proposed facility.

Agency Action:

Although not formalized, the Division stated the Society's management has been performing an informal market analysis for all new facilities. This analysis includes a review of the building demographics, review of building population, surrounding market conditions, etc. This information is compared to the recommendations as provided by the Federal RSA office.

Post Audit Division Comments:

This procedure needs to be documented to show compliance.

34. Product Mix

Suttle and Stalnaker Recommended:

The Society should monitor sales of all items and consider new products to determine which products may increase sales at the vending locations.

Agency Action:

The Division stated the Society is currently utilizing the Peachtree accounting system for inventory management. This system is able to provide numerous reports for the management, which provides enhanced analysis of inventory products and sales. Also, the Society pilots new products to determine their feasibility in the market conditions of its locations. Through a partnership with the Facility Managers, suppliers, and the Society, all products are now monitored and slow moving products are not purchased.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

Vendor Policies and Procedures

35. No Interest Loans - Vendors

Suttle and Stalnaker Recommended:

Management should consider charging interest on loans to vendors for equipment purchases and ensure appropriate loan documents are maintained for all current active vendor loans.

Agency Action:

The Division stated the Society has revised their policies and procedures and no longer permits loans to Facility Managers for equipment purchases.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

36. Vendor Initial Inventory Stock

Suttle and Stalnaker Recommended:

Management should consider providing the initial inventory of stock in the form of low interest loans to be repaid within two years of the initial lending.

Agency Action:

The Division stated the Society has reviewed this recommendation and has interpreted the Federal law to not allow the use of loans for the initial inventory to Facility Managers. Section 107b.2 of the Randolph Shepherd Act requires the State Licensing Agency to provide each facility manager with equipment and adequate initial stock; therefore, no action has been taken regarding this recommendation.

Post Audit Division Comments:

Although the agency's action does not comply with the recommendation, the agency is compliant with the federal act.

37. Health and Safety Inspections

Suttle and Stalnaker Recommended:

The Society should develop policies and procedures for conducting health and safety inspections at all vendor locations and ensure that inspections are conducted at a minimum of once every twelve months.

Agency Action:

The Division stated it has developed several checklists utilized for inspections of vending locations and operations. Inspections are now performed on all locations as follows; cafeterias are inspected monthly, vending routes are inspected annually, and snack bars are inspected every three months. The inspections are performed by the Business Counselor's and Highway's Supervisor, as deemed appropriate. Follow-up inspections are scheduled when deemed appropriate.

Post Audit Division Comments:

The Division was unable to provide us any documentation supporting the inspections.

38. Revised Vendor Agreements

Suttle and Stalnaker Recommended:

The Society should draft a new vendor agreement with the assistance of an attorney and the vendor committee. This agreement should be signed by all vendors and maintained in their files.

Agency Action:

The Division stated the vendor agreements have been revised.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

39. Risk Analysis

Suttle and Stalnaker Recommended:

The Society should prepare and periodically review and update a comprehensive list of the significant risks associated with the various issues and formalize the methods it uses or plans to use to mitigate the risks or otherwise determine that a given risk is at an acceptable level.

Agency Action:

As of this date, no action has been taken regarding this recommendation.

Post Audit Division Comments:

No action has been taken.

40. Insurance Review and Procurement

Suttle and Stalnaker Recommended:

One individual should be designated to review all insurance coverage and consolidate policies ensuring the Society is adequately protected from fire, liability, damage, theft or other possible losses.

Agency Action:

The Division stated the Blind Vendors Committee and the Society Administrator work together to procure insurance for Society employees.

Post Audit Division Comments:

The agency has not complied because the action taken does not address the recommendation.

Other

41. Online Banking

Suttle and Stalnaker Recommended:

The Society should investigate online banking capabilities with all financial institutions with open accounts.

Agency Action:

The Division stated the Society now has online banking capability for its major accounts.

Post Audit Division Comments:

It appears the agency has complied.

42. Renegotiation of Line of Credit

Suttle and Stalnaker Recommended:

Once the Society is financially stable, the line of credit should be paid off. The Society should then renegotiate the interest rate and other requirements of the line of credit.

Agency Action:

During the previous summer, the Society reduced the line of credit balance to \$0; however, because the Society is in its slow sales period and due to cash flow problems the line of credit is currently at \$90,000. In addition, the line of credit interest rate was renegotiated when the balance was paid.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

43. Annual Maintenance Plan

Suttle and Stalnaker Recommended:

The Society's maintenance department should develop a comprehensive maintenance plan for all equipment. This should include a listing of all equipment a history of repairs, dates of routine maintenance and a forecast of cost for future maintenance.

Agency Action:

The Division stated a comprehensive listing of all equipment is maintained by the agency. All equipment repairs and routine maintenance are now logged and maintained.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

44. Worker's Compensation

Suttle and Stalnaker Recommended:

The Society should determine the feasibility of settling all claims and develop a safety strategy to avoid further claims.

Agency Action:

According to the Division, the Society continues to utilize Accordia benefit groups and their legal counsel for review of workers compensation claims as they are filed.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

45. Employee Wages and Benefits

Suttle and Stalnaker Recommended:

The Society should ensure that all employees of the Society and State are compensated fairly through one of several methods.

Agency Action:

According to the Division, this recommendation has been met through realignment of staff and separation of duties between the agency and the nominee.

Post Audit Division Comments:

It appears the agency has attempted compliance with the recommendation.

46. Revised Nominee Agreement

Suttle and Stalnaker Recommended:

The nominee agreement between the Society and the Division of Rehabilitation Services should be revised to ensure both parties are operating in compliance with the agreement.

Agency Action:

The nominee agreement was revised and went into effect November 18, 2003.

Post Audit Division Comments:

Action taken is in compliance with the recommendation.

47. Investment of Temporary Excess Cash

Suttle and Stalnaker Recommended:

The Society should initiate an agreement with the bank to insure temporary excess funds can earn interest based on short term investment rates.

Agency Action:

The Division stated that although a temporary investment account is not being used by the Society, interest is paid on the main checking account of the Society. Furthermore, the Society has been able to negotiate reductions in various banking fees in lieu of the use of a temporary investment account. Once financial stability is achieved, the Society will revisit the use of a temporary investment account.

Post Audit Division Comments:

Since funds are deposited into an interest bearing account, the agency has substantially complied with the recommendation.

48. Grant Applications and Fund-raising

Suttle and Stalnaker Recommended:

The Society should designate one employee to identify grant opportunities, conduct fund raising activities and assist in grant writing.

Agency Action:

As of the date of this letter, no action has been taken regarding this recommendation. The Division and the Society are focusing on the self-employment of the Randolph Sheppard vendors.

Post Audit Division Comments:

No action has been taken.