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OFFICE OF PROGRAM POLICY ANALYSIS
& GOVERNMENT ACCOUNTABILITY

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Business Enterprise Program Needs to Modify Enterprises and Improve Vendor Training, Support, and Monitoring

at a glance

The Business Enterprise Program faces several challenges that have limited its ability to provide viable business opportunities for the blind. While many of the program's business enterprises provide relatively high incomes for clients, others consistently provide low incomes and many clients leave the program within a few years. To address these concerns, the program should close or modify business enterprises that cannot provide sufficient income levels, explore new business models, and improve its training, support, and monitoring of program vendors.

Scope

As directed by the Legislature, OPPAGA reviewed the Business Enterprise Program for legally blind individuals. OPPAGA examined whether the program met its goals of increasing economic opportunities for the blind and assisting the blind in becoming self-supporting.

Background

The U.S. Randolph-Sheppard Act of 1936 gives legally blind individuals priority to operate vending businesses on federal properties. [1] The Florida Legislature extended this priority to many state-owned properties in 1945 through s. 413.051, *Florida Statutes*. [2] The Business Enterprise Program, which the Florida Department of Education's Division of Blind Services administers, is responsible for implementing both the federal and state acts. The program establishes business enterprises and trains blind clients of the Vocational Rehabilitation Program to become self-employed managers of these businesses. The program's overall goals are to increase business opportunities for the blind and assist the blind to become economically self-supporting.

The Business Enterprise Program contracts with blind individuals to operate cafeterias, snack bars, and machine vending routes in federal, state, and private facilities. The program is responsible for training participants to become

[1] Congress recently examined the Randolph-Sheppard Vending Program because of concern that too few persons with disabilities obtain employment opportunities under the program. As such, it is considering a number of possible legislative alternatives, including combining Randolph-Sheppard and the Javits-Wagner-O'Day disability work program administration. However, as of October 2006, there was no pending federal legislation.

[2] This statute specifies that state colleges and universities, community colleges, and state correctional institutions are exempt from this priority.

licensed vendors in these facilities, overseeing the award of vendor contracts to operate business enterprises in the facilities through a competitive process, developing new business opportunities, and monitoring vendors' financial performance. As shown in Exhibit 1, there are currently 152 blind business enterprises in Florida, with nearly half located in state-owned facilities.[3] The program generally leases space for snack bars and cafeterias in state-owned buildings from the Department of Management Services, and contracts with the Florida Department of Transportation to operate vending machines on interstate highways.[4]

The program operates as part of the federal Vocational Rehabilitation Program. When a vocational rehabilitation client expresses an interest in becoming a business enterprise vendor and meets eligibility criteria, the program provides an opportunity for them to work for up to six weeks at one of the enterprises. If the client then continues to express an interest in becoming a business enterprise vendor, the vocational rehabilitation counselor refers him/her to the Business Enterprise Program for evaluation and formal training.

[3] The total number of business enterprise opportunities has remained constant over the past five years. While the program opened several new enterprises over this period, it also closed an equal number.

[4] The U.S. Surface Transportation Assistance Act of 1982 gave the Randolph-Sheppard Program priority to operate highway vending machines.

The program trains clients to manage business enterprises through classroom and on-the-job instruction. The program contracts with Daytona Beach Community College to provide six two-week modules of classroom training in food service management, including sessions on business planning and start-up, recordkeeping, food sanitation, food service, and vending. In Fiscal Year 2005-06, the approximate cost of classroom training was $6,400 per person.[5]

Once a trainee successfully passes an exam on each training module, the program assigns him/her to an experienced vendor to complete on-the-job management training. After meeting the expectations of on-the-job training, the Business Enterprise Program licenses the trainee as a program vendor.

Licensed program vendors compete to operate business enterprises when existing vendors change locations or leave the program or when the program develops new enterprises. The program advertises available opportunities to all licensed vendors on a periodic basis. The program ranks vendors who apply based on their previous performance in the program, scores on a written test, and the results of a panel interview with program staff and vendor representatives. During a single bidding period,

[5] The division also incurs the costs of room and board provided in its Orientation and Adjustment Center, but has not determined the unit cost of these services. The Vocational Rehabilitation Program may provide other training support services, but the costs associated with these services are not separately identifiable.

Exhibit 1
Nearly Half of All Business Enterprises Are Located on State Properties

Type of Facility	State	Federal	County and Municipal	Private	Total Business Enterprises
Cafeteria	11 [1]	3	2	0	**16**
Highway Vending	50	0	0	0	**50**
Non-Highway Vending	7	38	4	0	**49**
Snack Bar	5	14	15	3	**37**
Total	**73**	**55**	**21**	**3**	**152**

[1] As of June 1, 2006.

Source: OPPAGA analysis.

individual vendors may compete for and win the bid for several enterprises. After the highest bidder has made his/her choice of enterprises, those enterprises that were not chosen are then offered to the next highest bidder until an award is made. Vendors may operate an enterprise for as long as they meet contract terms.

Vendors are independent contractors who are solely responsible for proper operation of their business enterprise. As required by the program contract, vendors must pay business taxes, purchase insurance, and file required reports. In addition, vendors are required to remit monthly assessments to the program. These assessments are currently set at 6% of a vendor's net income.

The program also contracts with a private corporation to assume short-term operation of enterprises when vendors leave the program. The current contractor, ARAmatic, is paid a $120,000 annual fee to maintain business continuity in these enterprises. ARAmatic retains any profits and absorbs the losses of enterprises under its management. The corporation operates the enterprises until the program contracts with a new vendor.

Program resources. Primary funding for the Business Enterprise Program comes from an allotment of federal vocational rehabilitation funds through the Division of Blind Services as well as vendor assessments. In Fiscal Year 2005-06, total program funding was $3,045,810. Of this amount, the Legislature appropriated $895,000 from the Grants and Donations Trust Fund and $1,100,000 from the Federal Rehabilitation Trust Fund. An additional $400,000 was provided through budget amendments. The program uses these funds to develop new facilities and to refurbish or remodel existing facilities. The funding also is used for vending stand equipment, supplies, and repair. The remaining $650,810 was appropriated for general administrative expenses (e.g., salaries and benefits).

The program has 11 full-time equivalent employees including three administrators, five field consultants, and three clerical staff. In addition to program staff, federal law requires that the program establish a state committee of blind vendors to participate in making administrative decisions, developing a training program, and putting forth vendor grievances. The committee also makes operating recommendations to the program and seeks new business opportunities. Florida's Committee of Blind Vendors has 12 members.

Findings

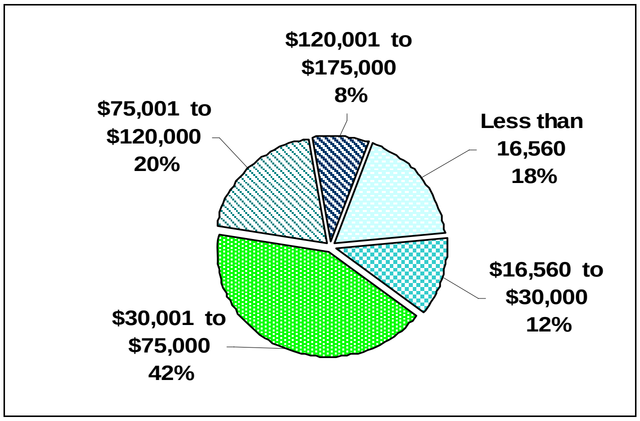
Several challenges limit the program's ability to provide viable opportunities for the blind

The Business Enterprise Program faces several challenges that limit its ability to fulfill its mission of increasing business opportunities for the blind and assisting its clients to become economically self-supporting. Specifically, while many of the current business enterprises provide relatively high incomes to clients, other enterprises, particularly the ones that new vendors typically receive, consistently provide low-income or unsuitable opportunities. In addition, the program has not provided vendors with sufficient training, support, and monitoring. As a result, many new vendors leave the program within their first two years.

Program enterprises provide a wide range of incomes that vary by enterprise type. Program vendors report a wide range of net incomes for their business enterprises. Income reported in 2005 ranged from a net loss of $8,650 to a net profit of $174,683. As shown in Exhibit 2, slightly under one-third earned less than $30,000, while 42% earned between $30,001 and $75,000, and 28% earned more than $75,000 (see Exhibit 2). The median net income for program vendors was $47,217 during this period. [6]

[6] According to the U.S. Census Bureau, the state median income was $42,440 in 2004-05.

Exhibit 2
Business Enterprises Produce a Wide Range of Incomes



Source: OPPAGA analysis.

Moreover, the average net income provided by program enterprises varies widely by business type. In 2005, highway vending rest stop venues produced the highest average net income ($82,382), which is nearly double that generated by full-service cafeterias ($45,335), and more than double that provided by office building vending operations ($38,476) and snack bars ($38,428).

Some enterprises generate low vendor incomes. Nearly one-fifth of the current enterprises operated by program vendors generate low earnings. In 2005, 27 of the 152 enterprises (18%) did not produce enough net income to enable vendors to become independent of Social Security Disability Insurance Benefits ($16,560). These facilities included 4 cafeterias, 10 snack bars, and 13 non-highway vending operations. In addition, 18 of these enterprises (3 cafeterias, 10 non-highway vending facilities, and 5 snack bars) produced incomes below Florida's 2005 annualized minimum wage of $10,784.[7] Most of these business enterprises had a history of generating low incomes—six reported incomes near or below minimum wage in each of the last five years, and one reported net losses during three of the last five years.

Several factors contribute to the low-income potential of these business enterprises. First, the declining state government workforce has negatively affected some enterprises. For example, four of the lowest income enterprises are cafeterias in state buildings that were established when the state government workforce was larger. In recent years, the number of state employees has decreased by nearly 10%, and most cafeterias are located in buildings that do not meet current criteria for the population needed to support this type of enterprise. Although U.S. General Services Administration guidelines suggest that facilities offering prepared hot foods, in addition to other items, should not be opened in buildings with fewer than 1,200 employees, most state cafeterias (7 of 11, 64%) are in buildings housing fewer than 1,000 employees.

Second, recently implemented security measures have deterred walk-in customers who might have previously purchased food from program cafeterias, snack bars, and vending operations. Prior to the 2001 terrorist attacks, most state buildings provided open access to the public. However, security in many buildings has increased, limiting public entry.

Third, enterprises, especially cafeterias and snack bars, are experiencing increased competition from nearby restaurants. For example, the number of restaurants in Leon County, where eight state cafeterias and two snack bars are located, increased 23% between 2001 and 2005, from 353 to 435.

Because of these factors, some facilities no longer appear to provide viable business enterprises for program vendors. The program has converted some facilities from food service to vending in the past, but notes that its ability to do so has been constrained at times because some agencies have resisted these changes as they prefer full-service facilities.

Many new vendors leave the program because of unsuitable opportunities and inadequate training, support, and monitoring. Under the program's current bidding process, most of the enterprises that become available for new

[7] The annualized minimum wage amount is calculated based on 1,854 total annual hours multiplied by the minimum wage rate. The minimum wage rate in Florida increased from $5.15 per hour to $6.15 per hour in May 2005.

vendors are low income or difficult to operate, and the program has not created new, more viable enterprises. In addition, the program has not provided new vendors with sufficient training, support, and monitoring. As a result, many vendors leave the program within their first two years.

Business opportunities for new program participants are often limited because experienced vendors hold long-term contracts for most of the highly desirable and profitable enterprises. For example, many of the program's experienced vendors have contracts to operate highway vending facilities, which typically are the easiest to manage and generate the highest incomes. Individuals licensed by the program before 1996 hold 46 of 50 highway vending contracts, leaving the less lucrative enterprises (e.g., cafeterias, snack bars, and non-highway vending) available to be operated by less experienced vendors.

In addition, cafeteria operations are often the first opportunity available for new vendors, and these facilities are relatively difficult to operate. Cafeterias require a high level of vendor skill in planning menus and purchases and supervising food preparation and a relatively large workforce, yet carry a substantial business risk and often generate low earnings. Currently, individuals licensed by the program for less than two years operate the majority of state cafeterias (6 of 11, 55%). [8] New vendors bid on and accept these enterprises knowing that within the program's current bidding process, they must generally have longevity before they can bid competitively on facilities that are more desirable.

Vendors, program staff, and vendor committee members reported that although cafeterias are often the most frequently available opportunities for new vendors, the program's current training does not emphasize the skills required to manage these enterprises. Current training is designed to prepare individuals to become managers but does not focus on vital skills for successful cafeteria operation, such as cost management. [9] In addition, the program's on-the-job training efforts do not ensure that vendors develop skills that will help them succeed as cafeteria managers, primarily because the criteria for training are unclear. Experienced program vendors provide on-the-job food service training and evaluate trainee readiness for licensing using checklists provided by the program. However, trainers reported that use of the checklists is difficult because the meaning of the criteria is often unclear, and the program does not provide guidance for evaluating trainees against the criteria.

In addition, the program provides limited support to new vendors. Although the vendor committee has recommended additional orientation and mentoring services for new vendors, the program has not increased the support it provides. For example, while the program's new facility checklist specifies that consultants should do an equipment inventory for a new vendor, both vendors and consultants reported that often, when new vendors arrive to assume responsibility for an enterprise, the program does not ensure that facilities are clean and equipment is operable, nor does it help vendors become familiar with the physical layout of new facilities. Furthermore, the program does not work with new vendors to ensure that they properly prepare needed paperwork to apply for liability insurance, workers' compensation insurance, and sales tax registration. As a result, vendors often begin operating enterprises without completing key business start-up requirements.

The program also provides limited monitoring of new vendors, and reviews, but does not audit, readily available financial information to identify and assist enterprises that are at risk of failure or violating contract requirements. Program field consultants make regular visits to each vendor to

[8] Two of these enterprises did not generate enough income in 2005 to enable vendors to become independent of Social Security Disability Benefits. In addition, four of the cafeterias currently operated by new vendors were operated by ARAmatic at some point during 2005 due to vendor turnover.

[9] Current classroom training includes modules on business planning and start-up, recordkeeping, food sanitation, food service, and vending, but only one day of instruction on food purchasing and cost control.

examine operations and equipment, and the program receives monthly financial reports from each vendor. The field consultants' job performance plans specify that they are required to verify vendors' financial reports semi-annually; however, staff do not conduct fiscal analyses of the monthly financial reports to identify facilities that are beginning to encounter problems. In addition, staff do not confirm reported sales, expenditures, or remittance of taxes. The program also does not review vendor financial reports for errors, such as reporting payroll expenses without a corresponding expense for payroll taxes. Stronger assistance and monitoring could have helped prevent several recent business enterprise failures. Over the past seven years, four vendors abandoned their enterprises after accumulating large sales and unemployment compensation tax liens for unpaid taxes.

Due at least in part to these problems many new vendors drop out of the program. Between January 2000 and December 2005, the program licensed 55 new vendors, of which 47 subsequently contracted to operate business enterprises. [10] However, more than one-third of these new vendors (17 of 47, or 36%) left the program within two years of entering into their first contract.

Recommendations

While the Business Enterprise Program provides a benefit to the blind by providing career opportunities, it needs to take steps to better serve and retain new vendors. These steps should include assessing current facilities and closing or modifying facilities that are not currently viable. The program also should increase vendor training, support, and monitoring.

[10] Of those vendors who do not contract to operate a facility, some bid but are not awarded the contract, some wait for the right opportunity to bid, and others never bid.

The program should assess facilities and close or modify low-performing enterprises

To date, the program has not systematically assessed the long-term viability of low-performing enterprises or developed criteria to close or modify enterprises that have poor income potential. In recent years, the program has closed, modified, or merged 33 enterprises in response to specific situations such as the closure of a state building, but it has not conducted a comprehensive review of all low-performing enterprises.

We recommend that the program complete a systematic viability assessment of all low performing business enterprises. As part of this assessment, the program should review each facility's historical operating revenues, expenses, and net income and should use these data to evaluate future income potential. The assessment also should identify challenges facing each enterprise, including factors such as serving a declining workforce, increased competition, security issues, and vendor training and experience level. Assessment results should be used to determine if low performing enterprises should be closed or modified, including merging or downsizing facilities and adopting new business models.

- If the program determines that an enterprise is unlikely to ever achieve long-term economic self-sufficiency, the business should be closed.
- If the program determines that an enterprise could be economically viable if it were modified, it should consider merging or downsizing the enterprise or adopting a new business model. For example, low-earning non-highway vending facilities could be merged with more lucrative highway vending routes. In addition, low-earning cafeterias could be downsized to snack bars or full vending operations, thus reducing overhead costs. The program should continue to work with agencies housing business enterprises that it determines should be downsized to address concerns the agencies may have about these changes.

- Moreover, the program could explore the costs and benefits of new business models, such as opening delicatessens or convenience stores or entering into corporate licensing agreements or franchises. For example, the program recently established a Barnie's Coffee franchise in the Capitol's 10th floor snack bar. [11] According to the vendor, the franchise has resulted in increased sales.

The program should improve training, support, and monitoring

To equip vendors to achieve long-term success, the program should evaluate the current training program and make revisions that better prepare new vendors for the most frequently available opportunities (i.e., cafeterias). The program should increase training to include a focus on controlling costs and continue to work with the vendor committee to integrate improvements in the current training curriculum, in particular, by developing a better-defined on-the-job training program.

The program also should develop a comprehensive support system for new vendors. This should include preparing an individual transition plan for new vendors that incorporates all aspects of starting a new business such as developing a business plan, identifying the specific support services needed by the vendor, and establishing timelines for key activities such as obtaining required registrations, licenses, and insurance. The plan also should include having the field consultants assess the condition, operability, and potential safety hazards posed by the state's equipment at these facilities when a facility is transferred to a new manager. Further, the plan should reflect any assistance the vendor may need to be oriented to the facility layout and equipment placement and operation.

To ensure contract compliance and ongoing fiscal viability, the program should develop a system to review enterprise financial information and should increase monitoring. At a minimum, program staff should review facility financial data annually and compare current and historical gross and net income; the ratio of food and operating costs to gross sales in the current year and to the same ratios in previous years; and income and cost information for similar facilities. The program also should add a number of monitoring elements to its current oversight activities, including

- conducting periodic audits of reported sales;
- putting a release authorization for tax information into vendor contracts which would allow for confirming that taxes are properly collected and remitted, and may be a good predictor of business stability; and
- reviewing monthly financial reports to identify indications of potential business difficulties.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes,* a draft of our report was submitted to the Commissioner of Education to review and respond. The Commissioner's written response is reproduced herein in Appendix A.

[11] The franchise rights were contracted for a 10-year period at a cost of $35,000 plus royalty fees.

Appendix A

FLORIDA DEPARTMENT OF EDUCATION

John L. Winn
Commissioner of Education

Just Read, Florida!

December 6, 2006

Mr. Gary R. VanLandingham
Director
Office of Program Policy Analysis
and Government Accountability
Claude Pepper Building, Suite 312
111 West Madison Street
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

The attached response to the preliminary and tentative audit findings regarding *Business Enterprise Program Needs to Modify Enterprises and Improve Vendor Training, Support, and Monitoring* is for your information.

If you have any questions, please contact John Franco, Inspector General, at 245-0403 or email john.franco@fldoe.org.

Sincerely,

John L. Winn

John L. Winn
Commissioner

JLW/jmf/br

Attachment

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Department of Education
Office of Program Policy Analysis and Government Accountability
Business Enterprise Program Needs to Modify Enterprises and Improve Vendor Training, Support, and Monitoring
Responses to Preliminary and Tentative Findings
December 6, 2006

Recommendation: The program should assess facilities and close or modify low performing enterprises.

Response: Each facility that may be considered low performing has different characteristics. Some are low performing due to frequent management changes, which adversely influence the customer base. It is this type of operation that the Division will aggressively evaluate when management changes. For operations that are formatted to provide a food service that is not sustainable due to the population counts, alternative formats, including downsizing to standardized menus or conversion to fully vended operations will take place. In either case, the more stable food service expectancy by the customer base will be minimally affected by management change. In some instances, the facility will be closed because neither downsizing nor conversion is deemed advisable.

Some operations that appear to be marginal are not "marginal" to the current vendor under contract who may not want a larger operation and is operating without sacrifice of customer satisfaction or experiencing contractual difficulties. In some cases, the vendor under contract has another business in the community, such as private vending machine routes and does not wish a higher producing and thus more demanding location. Since permanent contracts have no expiration dates or renewal clauses, these operations should continue until the current vendor elects to exit the contract. Upon such exit, the Division can then assess the viability of the facility.

The Division will develop marketing strategies to encourage systemic menu stability and pricing as an underpinning for improving customer satisfaction despite management turnover.

Recommendation: The program should improve training, support and monitoring.

The Division agrees that improvement in vendor preparation is needed and shall evaluate the current training program with the goal of better equipping newly licensed persons for the challenges and demands of a food service operation since it is in these types of facilities, i.e. cafeterias and snack bars, where most newly licensed persons enter their first operational contract. The Division has already initiated several programmatic changes toward this end.

First, the Division has raised the bar on its academic performance expectation for the six modular components offered classroom style at the Orientation and Adjustment Center in Daytona Beach. In the past, a person needed to achieve a score of 70% or better with three opportunities to do so, to "pass" the component. Now a vendor candidate must achieve a score of 75% to pass with only two opportunities to do so.

Second, the Division is actively exploring its options to use a Tallahassee Snack Bar/Cafeteria as an on the job training facility, where all persons who complete the academic coursework will receive the same instruction. By doing so, the links between traditional academic preparation and practical implementation of skills will be linked and monitored for a significant enhanced outcome once licensed.

The report finds that most newly licensed vendors enter their first contract in locations at the lower end of the profitability scale. Though generally true, it is unrealistic for newly licensed persons to expect to enter the more lucrative locations right after being licensed, when all locations are offered competitively to all vendors. Consistent performance and willingness to relocate often enhance the upward mobility of a newly licensed person.

The report also implies that the Division should offer more hands on assistance to newly licensed vendors. Conversely, the Division believes strongly that this approach actually enables dependence rather than independence. If more emphasis is placed on improving areas in vendor preparation, the need for intrusive intervention by Division staff decreases. Increased overt or covert "supervision" undermines the independent contractor clauses of the Division's contract with a vendor. As an alternative, the Division wants to encourage new vendors to be more self-advocating in exploring community resources, especially vendor-to-vendor relationships, to enhance self-reliance, independence and business success.

The report states: "At a minimum, program staff should review facility financial data annually and compare current and historical gross and net income; the ratio of food and operating costs to gross sales in the current year and to the same ratios in previous years; and income and cost information for similar facilities." This statement implies there is no review of a facility's financial performance by program staff.

On the contrary, the regionally based Consultants, through the Director of Operations, review the profitability of locations on an on-going basis and, when deemed appropriate, visit the location to offer alternatives to better assure business success and customer satisfaction. They use historical data to assess if a vendor might need assistance, especially to achieve the contractual annualized net profit minimum. Random checks of vending machine counters also help the program analyze accuracy of reporting.

<u>Concluding Remarks:</u>

The Division recognizes the merits of doing more to develop stability of its food service operations; to integrate pre-service and in-service training of licensees; and to monitor vendor reporting more aggressively. To do so, the Division plans to request additional resources from the Legislature. The authority for additional FTE positions will not require additional state general revenue since the program is funded on a State/Federal match where the vendors' federally sanctioned set-aside levy on profits are used to draw down federal funds. Increased profits provide increased set-aside, which in turn produce increased matching funds.

Likewise, the Division plans to request a legislative review of the exemptions that some state agencies have from the "Little Randolph Sheppard Act" {Chapter 413.051(1), Florida Statutes}. In doing so, as many as forty new business opportunities might come into existence and uphold the intent of both federal and state law to increase the number of self-supporting Florida citizens, who are legally blind.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability

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