

Audit Report

Detroit Urban League, Inc.
WIC Program

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review Section
July 2013



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN
DIRECTOR

July 24, 2013

N. Charles Anderson, President/CEO
Detroit Urban League, Inc.
208 Mack Avenue
Detroit, Michigan 48201

Dear Mr. Anderson:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; and Statement of MDCH Grant Program Revenues and Expenditures. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script, reading "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Office of Audit
Michael Gribbin, Auditor, Office of Audit
Yvonne Willis, VP of Finance and Administration, Detroit Urban League
Helen Williams, Director of WIC, Detroit Urban League

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives	1
Scope and Methodology	2
 <u>Conclusions, Findings, and Recommendations</u>	
Internal Controls	2
Financial Reporting.....	2
1. Overstated Indirect Costs	3
MDCH Share of Costs and Balance Due	4
Statement of MDCH Grant Program Revenues and Expenditures	5
Corrective Action Plan.....	6

DESCRIPTION OF AGENCY

The Detroit Urban League, Inc. (“Agency”) is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Agency’s Administrative Office is located in Detroit, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency is an affiliate of National Urban League, Inc., and provides various social, educational, and community services in Detroit, Michigan. The programs include the following: Mature Workers Program (formerly known as the Seniors in Community Service Employment Program), Child and Adult Care Food Program, and Women Infants and Children (WIC) Supplemental Food Program.

FUNDING METHODOLOGY

The Agency receives funding from various sources including: U.S. Department of Agriculture through the Michigan Department of Education & Michigan Department of Community Health, U.S. Department of Labor through the National Urban League, and corporate and private contributors. MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Agency’s effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency’s effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Detroit Urban League, Inc. Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal Requirements.
- Reviewed WIC equipment inventory and general Agency equipment inventory controls.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective 1: To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Agency was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted one financial reporting exception regarding overstated indirect costs (Finding 1).

Finding

1. Overstated Indirect Costs

The Agency overstated their indirect costs on the FSR by \$13,072.

OMB Circular A-122, Appendix A, Section E (1.)(a.) states,

“Cognizant agency means the Federal agency responsible for negotiating and approving indirect cost rates for a non-profit organization on behalf of all federal agencies.”

Also, OMB Circular A-122, Appendix A, Section E (1.)(e.) states,

“Provisional rate or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.”

The cognizant agency, the U.S. Department of Labor (DOL), and the Detroit Urban League signed an agreement in mid-May 2012 for a provisional rate of 13.22% to be applied to total salaries and fringes in order to compute the indirect expense. The period for which the provisional rate in the agreement was to be applied covered all of the 2011-2012 FSR year. The Agency did not implement the agreed upon provisional rate until July 2012. From September 2011 through June 2012, the Agency used an estimated rate of 14.92%. Once the provisional rate was agreed upon, the Agency did not adjust their year-end indirect expense to reflect the agreed upon provisional rate for October 2011 through June 2012 as required in the agreement. The agreement states,

“Indirect costs charged to Federal grants/contracts by means other than the rate cited in this Agreement should be adjusted to the applicable rate cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.”

The difference between the indirect cost reported on the FSR and the amount using the provisional rate throughout the year is \$13,072. We will not require a payback because the final rate for the 2011-2012 FSR year (20.14%) is more than what was used on the FSR. The final rate was issued in March 2013, after the deadline for amending the FSR.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the indirect rate used complies with the agreement with the designated cognizant Federal agency.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2012, is \$1,310,746. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. We made no financial findings that reduced funding.

Detroit Urban League
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$2,018,268	\$1,310,746 ¹	\$0	\$1,310,746
Local and Other Funds	\$0	\$0	\$0	\$0
TOTAL REVENUES	\$2,018,268	\$1,310,746	\$0	\$1,310,746
EXPENDITURES:				
Salary and Wages	\$1,117,068	\$728,607	\$0	\$728,607
Fringe Benefits	\$379,803	\$272,851	\$0	\$272,851
Equipment	\$77,611	\$0	\$0	\$0
Contractual	\$28,600	\$9,179	\$0	\$9,179
Supplies	\$98,500	\$54,537	\$0	\$54,537
Travel	\$6,000	\$5,325	\$0	\$5,325
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$112,800	\$94,784	\$0	\$94,784
Indirect Cost	\$197,886	\$145,465	\$0	\$145,465
TOTAL EXPENDITURES	\$2,018,268	\$1,310,746	\$0	\$1,310,746

¹ Actual MDCH payments provided on a performance reimbursement basis.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Overstated Indirect Costs

The Agency overstated their indirect costs on the FSR by \$13,072.

Recommendation: Implement policies and procedures to ensure that the indirect rate used complies with the agreement with the designated cognizant Federal agency.

Comments: The Agency agrees with this finding.

Corrective Action: We will provide the State Of Michigan with a copy of the U.S. Department of Labor's indirect negotiation agreement and request a budget amendment accordingly. Once approved, we will make a retroactive adjustment on our Financial Status Report (FSR).

**Anticipated
Completion Date:** June 6, 2013

MDCH Response: None