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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Caritas of Austin
February 24, 2022

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From: Patti Smith, CPA
Travis County Auditor

Date: February 24, 2022

Subject: Caritas of Austin Risk Assessment Results

The American Rescue Plan Act (ARPA) of 2021 is a $1.9 trillion federal economic stimulus bill. Within the ARPA, the Coronavirus State and Local Fiscal Recovery Fund (LFRF) provides $130 billion for local governments, split evenly between municipalities and counties. Travis County has been allocated $247,450,630 in LFRF funds.

When the County remits LFRF funds to another organization to carry out the federal award, that organization may be considered a subrecipient by the federal government depending on the details of the County's relationship with that organization. Travis County is required to comply with applicable Code of Federal Regulations (CFR) for its subrecipients. Specifically, the County must comply with 2 CFR §200.332 (b), which requires the County to perform a risk assessment and evaluate internal controls for federal grant subrecipients. The County is required to use these risk assessment results to develop a monitoring plan for the subrecipients.

The Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has completed a risk assessment of grant subrecipient Caritas of Austin (Caritas); the following report details our findings for this risk assessment.

RISK RATINGS

For subrecipient risk assessments, REC utilizes a five-level risk rating scale from very low to very high to quantify risks based on 11 criteria. The ratings for these criteria are then utilized to assign an overall risk rating to the subrecipient of low, medium, or high. We determined the overall risk rating for Caritas to be medium; details about risk criteria rated high and very high are provided in

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the Areas of Concern paragraph below. See Attachment A for a summary of the individual risk ratings for the 11 risk criteria.

AREAS OF CONCERN

In this section, we report on risk criteria rated high or very high. We noted the following for Caritas:

High Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years

The U.S. Department of Housing and Urban Development (HUD) performed a remote monitoring of the Continuum of Care Program administered by Caritas. Their monitoring report dated April 21, 2020, listed the following six findings for Caritas' financial management of the grant:

- HUD sampled and reviewed the accounting records for expenses reimbursed by the grant, noting the following:
  - HUD found disallowed costs in their sample and directed Caritas to review all the costs charged to the grant for improper payments. Caritas identified disallowed costs totaling $7,397 and reimbursed HUD.
  - HUD identified seven general ledger accounts associated with the disallowed costs that were included in Caritas' financial grant reporting template. HUD asked Caritas to remove them from the template to avoid future disallowed costs.
  - HUD noted Caritas' financial policies and procedures contained those seven general ledger accounts that were not eligible for reimbursement by the grant, and they asked Caritas to remove these items.
- HUD reviewed Caritas' documented policies and procedures, noting they were not in agreement with 2 CFR 200 for the following areas:
  - Record retention and access, 2 CFR 200.334 and 200.337
  - Procurement in general, 2 CFR 200.318-327
  - Contracting with small businesses, minority-owned businesses, and women's business enterprises in procuring audit services, 2 CFR 200.321

HUD indicated in their report dated August 17, 2020, that Caritas had resolved all of these findings.

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Very High-Risk Rating:

Grant Award Amount

Caritas has requested almost $8 million in LFRF funds, which is a significant amount to the County. The risk of loss of County funds corresponds with the size of the subrecipient grant award. Note that the use of any federal grant funds on a project, regardless of the percentage of contribution, triggers the CFR requirements, including those applicable to real property.

RECOMMENDATIONS FOR IMPROVEMENT

Having a finding of disallowed costs on a monitoring report is significant. It means the grant recipient has not complied with grant terms and is required to return the applicable funds to the grantor. It also signifies an increased risk of future audit findings and loss of County funds if they become a subrecipient of the County. If the County is audited and found to have disallowed costs involving a subrecipient, the County would be required to return the applicable funds to the federal government and would then pursue reimbursement from the subrecipient. We recommend that Caritas strengthen internal controls to ensure they comply with all grant terms and other federal requirements.

Although HUD has deemed the entity's revised procedures to be compliant with 2 CFR 200, it is important for Caritas to periodically review federal regulations for any changes, modifying their policies and procedures as needed to help ensure compliance. In addition, Caritas should provide training to employees required to adhere to these federal regulations. Because the County is a pass-through entity, if the subrecipient is noncompliant, the federal government will also consider the County to be noncompliant.

FINANCIAL OBSERVATIONS

The following observations are based on the September 30, 2020, audited financial statements provided by Caritas:

Financial Statements

- Annual revenues totaled $13,332,424. Revenues were comprised of grant revenue (63.4%), contributions and public support (32.7%), and other revenue (3.9%). Expenditures totaled $12,070,796, which resulted in an excess of revenues over expenditures of $1,261,628.

- Assets totaled $5,661,049, and liabilities $1,181,207, resulting in net assets of $4,479,842. There were donor restrictions of $1,395,887 on these net assets.

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Financial Ratios

Ratios of Concern:

- The contributions and grants ratio is 96.1% [(contributions + grant revenue)/total revenue], which is substantially more than the average of 47.0% for nonprofits of this size[1]. This ratio measures the organization's reliance on voluntary support, so high values indicate less diverse revenue sources and greater susceptibility to downturns in the economy.

- The days cash on hand ratio is 81 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is less than the average of 99 days for nonprofits of similar size. This calculation measures the number of days of expenses that can be covered from existing cash and cash equivalents.

- The fundraising expense ratio is 7.8% (fundraising expenses/total expenses), which is notably higher than the average of 2.2% for nonprofits of this size. Generally, donors prefer revenues be spent on program expenses rather than administrative costs such as fundraising, so a lower fundraising expense ratio is considered better to those considering a donation to the nonprofit.

- The fundraising efficiency ratio is $4.65 [total contributions (other than government grants)/fundraising expenses], which is significantly less than the average of $11.45 for nonprofits of similar size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising, so a higher amount reflects more efficient fundraising.

- The program efficiency ratio is 87.4% (program expense/total expenses) while the average for nonprofits of this size is 85.2%. Ideally, the ratio is at least 75%, but less than 90%. It is important to invest in infrastructure to ensure there is a strong administrative support system for program activities, while still being able to fund program expenses.

Ratios Within Acceptable Limits*:*

- The current ratio is 10:1 (current assets/current liabilities), with 1:1 being the minimum suggested. This ratio measures the nonprofit's ability to pay short term obligations (due within one year) with current assets.

- Net assets without donor restrictions as a percentage of total expenses is 25.5%, meaning expenses could be paid with net assets for 93 days (25.5% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so Caritas is well above this threshold.

- The savings indicator ratio is 10.5% [(revenues - expenses)/total expenses], which is substantially more than the average of 4.3% for nonprofits of similar size. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

[1] Cashwell, K., Copley, PhD, CPA, P., & Dugan, DBA, M. (May 2019 Issue) *Using Ratio Analysis to Manage Not-for-Profit Organizations.* The CPA Journal. https://www.cpajournal.com/2019/06/05/using-ratio-analysis-to-manage-not-for-profit-organizations/. Nonprofits of a similar size refer to those with assets totaling $1 to $10 million. Caritas' assets totaled $5,661,049 on September 30, 2020.

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RISK ASSESSMENT TEAM

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CLOSING

This report is intended solely for the information and use of County departments and offices involved with processing LFRF grant funds and the Commissioners Court. Please contact us if you have any concerns or questions regarding this report.

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ATTACHMENT A – RISK ASSESSMENT RATINGS

Risk Assessment Criteria	Rating
1. Financial impropriety involving the subrecipient reported in the media	**Very Low**
2. Amount of grant award for this project/program	**Very High**
3. Experience managing any type of grant funds	**Very Low**
4. Grant experience: dollar amount of grant revenue for most recent fiscal year	**Very Low**
5. Single Audit	**Very Low**
6. Financial statement audit	**Very Low**
7. Financial records and reporting	**Low**
8. State/federal agency monitoring during the past 3 years	**High**
9. Personnel experience and/or turnover	**Medium**
10. Internal Control Questionnaire	**Low**
11. Documented procedures 2 CFR 200	**Medium**
Overall Risk Rating	**Medium**