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Travis County Auditor's Office
Subrecipient Risk Assessment Results – The Other Ones Foundation
January 11, 2022

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From: Patti Smith, CPA
Travis County Auditor

Date: January 11, 2022

Subject: The Other Ones Foundation 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) Division of the Travis County Auditor's Office has completed a risk assessment of grant subrecipient The Other Ones Foundation (TOOF); the following report details our findings for this risk assessment.

RISK RATINGS

For subrecipient risk assessment, 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 used to assign an overall risk rating to the subrecipient of low, medium, or high. We determined the overall risk rating for TOOF to be medium; details about risk criteria rated very high are provided in the Areas

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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 TOOF:

Very High-Risk Rating:

Personnel experience and/or turnover
Of the 68 staff, 42 (62%) have been hired within the past six months. Of the six employees who are responsible for grant reporting and accounting, four have been in their position for less than two years. TOOF notes that leadership positions, including the Chief Financial Officer, Chief Operations Officer and Founder/Executive Director, have all been in place since the start of the organization in 2018.

Single Audit
TOOF has not undergone a Single Audit because they have not yet met the spending threshold of $750,000 or more of federal grant funds. The purpose of a Single Audit is to determine if the federal grant recipient has been in compliance with applicable grant rules and regulations. There is increased risk associated with this subrecipient because the County does not know how likely it is that TOOF will comply with LFRF grant rules and regulations. Because the County is a pass-through entity, if the subrecipient is noncompliant, it is considered to be the County's noncompliance in the eyes of the federal government.

State/Federal monitoring
TOOF has not had any state or federal monitoring because they did not receive state or federal grant funds prior to 2021. As with the lack of Single Audit, the County is unable to obtain information about how TOOF handles grant funds.

Grant Award Amount
TOOF has requested over $3 million in LFRF funds for a project with a budget of $9 million. This is a significant amount to the County, especially considering that TOOF has only been in operation for four years, and this is their first year to use federal grant funds.

RECOMMENDATIONS FOR OF IMPROVEMENT

We recommend that TOOF develop a strong system of internal controls, including documented policies and procedures for their accounting and grant processes. TOOF has mentioned they have only been in existence for four years and have grown exponentially during the past 12 months. This could quickly translate to a lack of audit trail/poor recordkeeping, opportunities for theft or defalcation of funds, and/or noncompliance with grant rules and applicable federal regulations.

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FINANCIAL OBSERVATIONS

The most recent full year audited financial statements provided by TOOF were dated May 31, 2020. They changed their fiscal year to September, so their audit report also included the four months ending September 30, 2020. Based on TOOF's May 31, 2020 audited financial statements, we noted/calculated the following:

Financial Statements

- Annual revenues totaled $1,005,066. Revenues were comprised of contract revenue (56.9%), contributions and public support (26.1%), grant revenue (10.5%), and other revenue (6.5%). Expenditures totaled $765,913, which resulted in an excess of revenues over expenditures of $239,153.

- Assets totaled $282,359, and liabilities $46,101, resulting in net assets of $236,258. There were no donor restrictions on the net assets.

Financial Ratios

Ratios of Concern:

- Days cash on hand is 72 days (cash+cash equivalents)/[(total expenses-depreciation expense)/365 days], which is significantly less than the average of 123 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. We also did this calculation using the unaudited financial statements dated September 30, 2021, noting it had drastically reduced to 59 days.

- The savings indicator ratio is 31.2% [(revenues-expenses)/total expenses], which is unusual because the average for nonprofits of this size is 4.5%. This ratio measures the net revenues that are retained by the organization as a percentage of expenses. We also did this calculation using the unaudited financial statements dated September 30, 2021, noting it had drastically reduced to 8.4%.

- Net assets without donor restrictions as a percentage of total expenses is 30.8%, meaning expenses could be paid with net assets for 113 days (30.8% x 365 days). We also did this calculation using the unaudited financial statements dated September 30, 2021, noting the number of days had significantly decreased to 59. The Government Finance Officers Association (GFOA) recommends having a minimum of two months, so TOOF does not meet the guideline.

Ratios Within Acceptable Limits*:*

- The current ratio is 5:1 (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.

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- The program efficiency ratio is 87.6% (program expense/total expenses), which is comparable to the average of 85.3% for nonprofits of similar size[1]. 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.

RISK ASSESSMENT TEAM

Joanne Englund, CPA, Financial Analyst VI
Amanda Muehlberg, CPA, Financial Analyst IV

CLOSING

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

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David Jungerman, CIA
Chief Assistant County Auditor II
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Travis County Auditor

[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 from $100,000 to $500,000. TOOF's assets totaled $282,359 on May 31, 2020.

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Risk Assessment File

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ATTACHMENT A – RISK ASSESSMENT RATINGS

Risk Assessment Criteria and Ratings	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	Medium
4. Grant experience: dollar amount of grant revenue for most recent fiscal year.	Very Low
5. Single Audit	Very High
6. Financial statement audit	Very Low
7. Financial records and reporting	Low
8. State/federal agency monitoring during the past 3 years	Very High
9. Personnel experience and/or turnover	Very High
10. Internal Controls Questionnaire	Low
11. Documented procedures 2 CFR 200	Medium
Overall Risk Rating	Medium