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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Austin Tenants Council
Fiscal Year 2022

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TRAVIS COUNTY
AUDITOR'S OFFICE

PATTI SMITH, CPA
COUNTY AUDITOR

TRAVIS COUNTY
700 LAVACA
PO BOX 1748
AUSTIN, TX 78767
(512) 854-9125
FAX: (512) 854-9164

To: Pilar Sanchez, County Executive
Health & Human Services

From: Patti Smith, CPA
Travis County Auditor

Date: July 27, 2022

Subject: Austin Tenants Council - 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 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 Austin Tenants Council (ATC); 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 ATC to be medium; details about risk criteria rated high and very high are provided in the Areas of Concern paragraph below. See Attachment A for a summary of the individual risk ratings for the 11 risk criteria.

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AREAS OF CONCERN

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

High Risk Rating:

Documented Procedures

The County and its subrecipients are required to adhere to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), which include the requirement for documented procedures. We performed a high-level review of the procedures for procurement, record retention, cost principles and real property submitted by ATC, noting the following:

Although some of the procedures appeared reasonable, the bulk of the procedures were insufficient for the following reasons:

- The procedure(s) did not address the CFR requirements.
- The procedure(s) covered only a portion of the CFR requirements.
- The procedure(s) consisted of policies rather than procedures.

Policies are the entity's business rules, or in this case, their CFR requirements. Procedures are the steps to be taken to ensure adherence to policy. Note that we only evaluated the submitted procedures and not their actual implementation by the entity.

Very High-Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years

In response to our request for monitoring reports issued to ATC over the past three years, ATC said they had approximately 12 federal contracts monitored during that time, and there were no findings. When we reminded them that we asked for the reports, they said no monitoring reports were issued. They thought the reason monitoring reports weren't issued was because the monitoring was done remotely. This is not consistent with our experience. We have seen federal monitoring reports issued to our other subrecipients for monitoring performed remotely. This inconsistency and potential lack of transparency is of concern. The purpose of monitoring is to determine if the grant recipient has complied with applicable grant rules and regulations. There is increased risk associated with this subrecipient since the County is unable to obtain information about this entity's past compliance with grant rules and regulations.

Single Audit

ATC 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 complied with the applicable grant rules and regulations. There is increased risk associated with this subrecipient since the County cannot obtain an external auditor's opinion on this entity's past compliance with federal grant rules and regulations.

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Personnel experience and/or turnover

Only one (33%) of three accounting positions was filled by an employee who had been in their position for at least two years. There was an open position for the executive director and the office manager had been in her position for less than two years. Because a significant percentage of the employees who are responsible for accounting tasks have been in their positions for less than two years, there is an increased likelihood that ATC staff could invoice the County for unallowed expenses and/or prepare erroneous reimbursement invoices.

RECOMMENDATIONS FOR IMPROVEMENT

The concerns reported above are significant because the County is a pass-through entity. If the subrecipient is found to be noncompliant, the federal government will also consider the County to be noncompliant. We recommend the following to ATC:

- ATC should review their current documented procedures and make improvements as necessary to ensure the procedures are compliant with 2 CFR 200.
- We recommend ATC strengthen internal controls to ensure compliance with all grant terms and other federal requirements.
- ATC should improve their record keeping for their monitoring visits. They should request a monitoring report from entities performing monitoring if one is not provided.
- We recommend ATC ensure their system of internal controls includes sufficient independent supervisory review of the work completed by interim and/or new employees, providing training as needed.

FINANCIAL OBSERVATIONS

The following observations are based on the September 30, 2021 audited financial statements provided by ATC:

Financial Statements

- Annual revenues totaled $1,277,663. Revenues were comprised of grant revenue (73.8%), contributions and public support (13.0%), note payable forgiveness (10.8%) and other revenue (2.5%). Expenditures totaled $1,112,060, resulting in an excess of revenues over expenditures of $165,603.
- Assets totaled $581,760 and liabilities totaled $58,002, resulting in net assets of $523,758. There were no donor restrictions on the net assets.

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Financial Ratios

Ratios of Concern:

- The days cash on hand ratio is 123 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is less than the average of 146 days for nonprofits of similar size[1]. This calculation measures the number of days of expenses that can be covered from existing cash and cash equivalents.

- The contributions and grants ratio is 86.7% [(contributions + grant revenue)/total revenue], which is substantially more than the average of 56% for nonprofits of this size. 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.

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 44.6%, meaning expenses could be paid with net assets for 163 days (44.6% x 365 days). The Government Finance Officers Association recommends having a minimum of two months on hand, so ATC is well above this threshold.

- The savings indicator ratio is 14.9% [(revenues - expenses)/total expenses], which is considerably more than the average of 6.0% for nonprofits of similar size. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

- The program efficiency ratio is 80.7% (program expense/total expenses), which is comparable to the average of 86.1% for nonprofits of this size. Ideally, the ratio is at least 75%, but less than 90%. Although it is important to invest in infrastructure to ensure there is a strong administrative support system for program activities, sufficient funds must be available to pay program expenses.

RISK ASSESSMENT TEAM

Joanne Englund, CPA, Financial Analyst VI
Ely Allen, Financial Analyst II

[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 $500,000 to $1 million. ATC's assets totaled $581,760 on September 30, 2021.

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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.

DocuSigned by:
David Jungerman
5B5801D13DFE48D...

David Jungerman, CIA
Chief Assistant County Auditor II
Risk Evaluation & Consulting Division

DocuSigned by:
Patti Smith
53FF54208085470...

Patti Smith, CPA
Travis County Auditor

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Risk Assessment File

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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	Medium
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 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 Control Questionnaire	Low
11. Documented procedures 2 CFR 200	High
Overall Risk Rating	Medium