DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

Travis County Auditor's Office
Subrecipient Risk Assessment Results – Texas RioGrande Legal Aid
FY22

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

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: May 9, 2022

Subject: Texas RioGrande Legal Aid - 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 Texas RioGrande Legal Aid (TRLA); 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 TRLA to be medium; details about risk criteria rated 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.

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

AREAS OF CONCERN

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

High Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years

The City of San Antonio performed a fiscal monitoring visit of TRLA's Pro Bono Protective Order Project and Legal Services Nonimmigration Program during May 2021. In their monitoring report dated June 1, 2021, they noted disallowed costs totaling $1,326. The details are as follows:

- TRLA billed the grant for administrative charges that were not supported by timesheets. Rather than have administrative staff enter their time spent on each program to ensure actual labor costs are billed to grants, TRLA allocates their wages based on a percentage of program cost allocations. TRLA billed administrative costs totaling $1,203 for the period of October 2020 through March 2021. The City of San Antonio stated TRLA must ensure a cost allocation plan is developed and consistently used for all their ongoing programs and they would be deducting the disallowed costs from a subsequent invoice.

- TRLA billed the grant for expenses totaling $123 that were incurred outside the contract period. The City of San Antonio disallowed the expenses and indicated they would be subtracting them from a future invoice.

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 TRLA, 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 subrecipient did not provide the procedures.

TRLA did not provide over 70% of the procurement and record retention procedures, stating the procedures were not applicable to their program. There are no exemptions in 2 CFR 200 from the requirement to produce documented procedures. Although we notified TRLA of this fact, and offered them another opportunity to provide the procedures, they did not do so. Note that we only evaluated the submitted procedures and not their actual implementation by the entity.

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

Grant Award Amount

TRLA has requested $1 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 awards. Note that the use of any federal grant funds on a project, regardless of the percentage of contribution, triggers the CFR requirements.

RECOMMENDATIONS FOR IMPROVEMENT

Based on the issues reported in the Areas of Concern, we recommend the following:

- 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 TRLA strengthen internal controls to ensure they comply with all grant terms and other federal requirements.

- If the subrecipient is noncompliant with 2 CFR 200, the federal government will also consider the County to be noncompliant. TRLA should review their current procedures and make improvements as necessary to ensure compliance with all grant terms and federal requirements as stated in 2 CFR 200.

FINANCIAL OBSERVATIONS

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

Financial Statements

- Annual revenues totaled $39,434,600. Revenues were comprised of grant revenue (98.1%), other revenue (1.5%), and contributions and public support (0.5%). Expenditures totaled $42,106,411, resulting in an excess of expenditures over revenues of $2,671,811.

- Assets totaled $38,822,855 and liabilities totaled $30,322,226, resulting in net assets of $8,500,629. There were donor restrictions on $2,752,814 of these assets.

Financial Ratios

Ratios of Concern:

- Net assets without donor restrictions as a percentage of total expenses is 13.7%, meaning expenses could be paid with net assets for 50 days (13.7% x 365 days). The Government Finance Officers Association recommends having a minimum of two months on hand, so TRLA falls below this threshold.

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

- The program efficiency ratio is 94.4% (program expense/total expenses), which is greater than the average of 86.2% for nonprofits of similar size[1]. 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.

- The savings indicator ratio is -6.3% [(revenues - expenses)/total expenses], which, as a negative, is considerably less that the average of 4.5% for nonprofits of this size. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

- The contributions and grants ratio is 98.5% [(contributions + grant revenue)/total revenue], which is substantially more than the average of 34% for nonprofits of similar 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.

- The fundraising efficiency ratio is $0.71 [total contributions (other than government grants)/fundraising expenses], which is much less than the average of $11.93 for nonprofits of this size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising, so higher is better.

Ratios Within Acceptable Limits*:*

- The days cash on hand ratio is 250 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is notably more than the average of 76 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 current ratio is 1:1 (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. While this ratio is within acceptable limits, we would prefer to see a stronger ratio.

- The fundraising expense ratio is 0.6% (fundraising expenses/total expenses), which is less than the average of 1.6% 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 donation to the nonprofit.

RISK ASSESSMENT TEAM

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

[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 $10 to $50 million. TRLA's assets totaled $38,822,855 on September 30, 2021.

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

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
53FF54208085479...

Patti Smith, CPA
Travis County Auditor

REPORT DISTRIBUTION

Amy Clark Meachum, Judge, 201st Judicial District
Brenda Kennedy, Judge, 403rd Judicial District
Andy Brown, County Judge
Jeff Travillion, Commissioner, Precinct 1
Brigid Shea, Commissioner, Precinct 2
Ann Howard, Commissioner, Precinct 3
Margaret Gomez, Commissioner, Precinct 4
Jessica Rio, County Executive, Planning & Budget Office
Lawrence Lyman, Division Director, Health & Human Services
Trelisha Brown, Division Director, County Attorney's Office
Prema Gregerson, Attorney VII, County Attorney's Office
Risk Assessment File

DocuSign Envelope ID: 9BD1E7E7-F6BC-46CF-892D-069397005A4B

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	**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	**High**
Overall Risk Rating	**Medium**