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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Integral Care
March 31, 2022

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From: Patti Smith, CPA
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Date: March 31, 2022

Subject: Integral Care 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 Integral Care; 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 used to assign an

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overall risk rating to the subrecipient of low, medium, or high. We determined the overall risk rating for Integral Care to be medium; details about the 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.

AREAS OF CONCERN

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

High Risk Rating:

Financial records and reporting
Although Integral Care uses accounting software to track financial transactions, they use Excel to prepare financial statements. Excel-prepared financials may be more prone to errors or misstatement than those prepared within the entity's financial system.

Grant Award Amount
Integral Care has requested a total of $814,221 in LFRF funds for the following projects:

Project Name	Budget
Supportive Housing Collaborative - Menchaca IC	$489,221
Targeted Behavioral Health Support for People Experiencing Homelessness	325,000
Total Cost	$814,221

The amount of LFRF funds requested is a relatively 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, including those applicable to real property.

Very High-Risk Rating:

Personnel experience and/or turnover
Only 24 (71%) of the 34 accounting positions are held by employees who have been in their position for at least two years. Six of these employees were hired to fill newly created positions during September and October of 2021. There were three employees who left during the past 18 months; and there were four open positions on the date the risk assessment forms were completed.

RECOMMENDATIONS FOR IMPROVEMENT

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

- Due to the inherent risks of misstatement and/or misappropriation of funds that are associated with manually prepared financial statements, Integral Care should ensure they have a solid

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system of internal controls in place, including an independent review process and appropriate segregation duties.

- Because a significant percentage of the accounting employees have been in their positions for less than two years, there is an increased likelihood of grant reporting errors. We recommend Integral Care ensure their system of internal controls includes sufficient independent supervisory review of the work completed by the new employees, providing training as needed.

FINANCIAL OBSERVATIONS

The following observations are based on the August 31, 2020, audited financial statements provided by Integral Care:

Financial Statements

- Annual revenues totaled $110,102,183. Revenues were comprised of local and earned revenues (33.7%), federal program funds (33.6%), state program funds (32.5%), and investment earnings (0.2%). Expenditures totaled $106,422,401, which resulted in an excess of revenues over expenditures of $3,679,782.

- Assets totaled $45,133,279, and liabilities totaled $8,317,599, resulting in net assets of $36,815,680. Net assets can be categorized as follows: unassigned $22,105,998, nonspendable $7,388,862, committed $5,100,962, and assigned $2,219,858.

Financial Ratios

Ratio of Concern

- The savings indicator ratio is 3.5% [(revenues-expenses)/total expenses], which is significantly lower than the average of 4.5% for nonprofits of this size[1]. This ratio measures net revenues that are retained by the organization as a percentage of expenses.

Ratios Within Acceptable Limits:

- The current ratio is 5:1 (current assets/current liabilities), with 1:1 being the minimum recommended. This ratio measures the nonprofit's ability to pay short term obligations (due within one year) with current assets.

- Unassigned fund balance as a percentage of total expenses is 20.8%, meaning expenses could be paid with the unassigned fund balance for 76 days (20.8% x 365 days). The Government Finance Officers Association recommends having a minimum of two months; so Integral Care exceeds this threshold.

[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 $10 to $50 million. Integral Care's assets totaled $45,133,279 on August 31, 2020.

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- Days cash on hand is 79 days (cash + cash equivalents)/[(total expenses-depreciation expense)/365 days] while the average for nonprofits of similar size is 76 days. This calculation measures the number of days of expenses that can be covered from existing cash and cash equivalents.

- The program efficiency ratio is 83.4% (program expense/total expenses) while the average for nonprofits of similar size is 86.2%. 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.

RISK ASSESSMENT TEAM

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

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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 concerns or questions regarding this report.

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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	**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	**High**
8. State/federal agency monitoring during the past 3 years	**Medium**
9. Personnel experience and/or turnover	**Very High**
10. Internal Controls Questionnaire	**Low**
11. Documented procedures 2 CFR 200	**Medium**
Overall Risk Rating	**Medium**