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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Meals on Wheels
Fiscal Year 2022

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From: Patti Smith, CPA
Travis County Auditor

Date: September 23, 2022

Subject: Meals on Wheels – Subrecipient Risk Assessment Results

Travis County obtained Community Development Block Grant CARES Act (CDBG-CV) federal grant funds to run the Texas Emergency Rental Assistance Program (TERAP). This program gives financial assistance to income-eligible tenants who have been economically impacted by the COVID-19 pandemic. The County, acting as a pass-through entity, granted Meals on Wheels CDBG-CV funds to administer the TERAP program.

When the County remits federal grant 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 Meals on Wheels; 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 Meals on Wheels to be low; details about the risk criteria rated high are provided in the

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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. We noted the following for Meals on Wheels:

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 Meals on Wheels, 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.

RECOMMENDATIONS FOR IMPROVEMENT

The concern reported above is 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 that Meals on Wheels review their current documented procedures and make improvements as necessary to ensure the procedures are compliant with 2 CFR 200.

FINANCIAL OBSERVATIONS

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

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Financial Statements

- Annual revenues totaled $29,834,460. Revenues were comprised of grant and contract revenue (78.1%), public contributions (20.1%), and other revenue (1.8%). Expenditures totaled $19,587,226, resulting in an excess of revenues over expenditures of $10,247,234.

- Assets totaled $25,684,732 and liabilities totaled $3,716,020, resulting in net assets of $21,968,712. There were donor restrictions on $2,050,153 of the net assets.

Financial Ratios

Ratios of Concern:

- The fundraising efficiency ratio is $5.67 [total contributions (other than government grants)/fundraising expenses], which is much less than the average of $11.93 for nonprofits of this size[1]. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising, so higher is better.

- The fundraising expense ratio is 5.4% (fundraising expenses/total expenses), which is larger than the average of 1.6% for nonprofits of similar 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.

Ratios Within Acceptable Limits*:*

- The current ratio is 9:1 (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 101.7%, meaning expenses could be paid with net assets for 371 days (101.7% x 365 days). The Government Finance Officers Association recommends having a minimum of two months on hand, so Meals on Wheels is well above this threshold.

- The program efficiency ratio is 82.5% (program expense/total expenses), which is comparable to the average of 86.2% 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.

- The savings indicator ratio is 52.3% [(revenues - expenses)/total expenses], which is considerably more than the average of 4.5% 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 $10 to $50 million. Meals on Wheel's assets totaled $25,684,732 on September 30, 2021.

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- The days cash on hand ratio is 162 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is much more than the average of 76 days for nonprofits of this size. This calculation measures the number of days of expenses that can be covered from existing cash and cash equivalents.

RISK ASSESSMENT TEAM

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

CLOSING

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

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