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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Austin Area Urban League
March 8, 2022

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From: Patti Smith, CPA
Travis County Auditor

Date: March 8, 2022

Subject: Austin Area Urban League 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 Austin Area Urban League (AAUL); 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 AAUL to be low; details about risk criteria rated high and very 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 and very high. We noted the following for AAUL:

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 AAUL, noting the following:

Although some of the procedures appear 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:

Grant Award Amount

AAUL has requested over $9 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, including those applicable to real property.

RECOMMENDATIONS FOR IMPROVEMENT

The federal government requires their grant recipients to document, implement and maintain procedures for a number of functional areas to improve the entity's overall internal control environment. If a subrecipient is unable to provide the requested procedures, it is likely they have not determined the processes their organization will utilize to comply with federal requirements. Consequently, it will be difficult for the subrecipient to comply with the numerous LFRF grant rules and regulations. Because the County is a pass-through entity, if the subrecipient is noncompliant, the federal government will also consider the County to be noncompliant. We

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recommend AAUL review their current procedures to determine where they are not sufficient to address federal requirements, making improvements as needed.

FINANCIAL OBSERVATIONS

The following observations are based on the December 31, 2020 audited financial statements provided by AAUL:

Financial Statements

- Annual revenues totaled $5,904,318. Revenues were comprised of grant revenue (71.3%), contributions and public support (28.1%), and other revenue (0.6%). Expenditures totaled $5,032,763, which resulted in an excess of revenues over expenditures of $871,555.

- Assets totaled $1,350,055, and liabilities $457,577, resulting in net assets of $892,478. There were donor restrictions of $327,838 on these net assets.

Financial Ratios

Ratios of Concern:

- The contributions and grants ratio is 99.4% [(contributions + grant revenue)/total revenue], which is substantially more than the average of 47.0% for nonprofits of this size[1]. 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 days cash on hand ratio is 40 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is much less than the average of 99 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.

- Net assets without donor restrictions as a percentage of total expenses is 11.2%, meaning expenses could be paid with net assets for 41 days (11.2% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so AAUL is well below this threshold.

- The program efficiency ratio is 87.9% (program expense/total expenses) while the average for nonprofits of this size is 85.2%. 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 while still being able to fund program 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 $1 to $10 million. AAUL's assets totaled $1,350,055 on December 31, 2020.

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Ratios Within Acceptable Limits*:*

- The fundraising expense ratio is 0.8% (fundraising expenses/total expenses), which is less than the average of 2.2% 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.

- The fundraising efficiency ratio is $42.68 [total contributions (other than government grants)/fundraising expenses], which is considerably more than the average of $11.45 for nonprofits of this size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising, so higher is better.

- The current ratio is 6:1 (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.

- The savings indicator ratio is 17.3% [(revenues - expenses)/total expenses], which is much more than the average of 4.3% for nonprofits of similar size. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

RISK ASSESSMENT TEAM

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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.

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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 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	**Very Low**
9. Personnel experience and/or turnover	**Very Low**
10. Internal Control Questionnaire	**Medium**
11. Documented procedures 2 CFR 200	**High**
Overall Risk Rating	**Low**