DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

Travis County Auditor's Office
Subrecipient Risk Assessment Results – Workforce Solutions - Capital Area Workforce Board
April 19, 2023

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

TRAVIS COUNTY
AUDITOR'S OFFICE

PATTI SMITH, CPA
COUNTY AUDITOR

TRAVIS COUNTY
700 LAVACA
P.O. 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: April 19, 2023

Subject: Workforce Solutions - Capital Area Workforce Board Risk Assessment Memo

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 the 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 Workforce Solutions - Capital Area Workforce Board (Workforce Solutions); the following report details our findings for this risk assessment.

RISK RATINGS

For subrecipient risk assessment, 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 overall risk rating to the subrecipient of low, medium, or high. We determined the overall risk rating for Workforce Solutions to be high; 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.

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

AREAS OF CONCERN

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

High Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years
Texas Workforce Commission (TWC) performed monitoring visits of Workforce Solutions during 2021 and 2022, which resulted in the following findings:

- During a 2022 monitoring visit, three findings related to questioned costs were noted. One finding was the result of Workforce Solutions not complying with local, state, and federal requirements for procurement, leading to $46,850 of questioned costs. This finding pertained to the procurements of both a consultant position and a digital technology hub, both of which exceeded their proposed budgets by the questioned $46,850. Both procurements lacked sufficient documentation, and the digital technology hub's procurement was conducted as a small purchase instead of using formal competitive proposal methods. The other two findings pertained to cost reasonableness, necessity, and support, leading to a combined $14,334 of questioned costs. Corrective action was submitted and accepted by the monitoring agency, but the initial lack of appropriate documentation of support remains a concern.

- During a 2021 monitoring visit, questioned costs were noted totaling $12,202. These costs were comprised of payments to a childcare provider for two service months from the Stabilization Grant and the applicable 25% enhancement rate for one month. The childcare provider was not entitled to these payments because their business was open during this time.

Very High-Risk Rating:

Personnel Experience and/or Turnover
Workforce Solutions has eight accounting positions and five programmatic employees who provide grant reporting. Of the eight accounting positions, five (62.5%) employees have been in their position for less than two years, and one (12.5%) is an open position. There is an increased risk of errors for newly hired employees who need time to become proficient in their jobs.

Grant Award Amount
Travis County has proposed LFRF projects with funds totaling over $23 million for the Workforce Solutions programs covering workforce development and childcare assistance. This is a substantial amount for the County. The risk of loss of County funds corresponds with the size of the subrecipient grant award.

Financial records and reporting – ongoing issues
Travis County has an existing contractual relationship with Workforce Solutions, and the risks above have been reflected in our own history with the entity. Historically, we have encountered issues with payment requests being submitted without the necessary support. When asked for the

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

necessary support, the County either did not receive the requested documents or received unrelated supporting documents that did not fulfill our request.

RECOMMENDATIONS FOR IMPROVEMENT

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

- A finding for questioned costs on a monitoring report is significant. It means the grant recipient has not complied with grant terms and is required to return the money to the grantor. It also signifies an increased risk of future audit findings and loss of County funds if they remain a subrecipient of the County. If the County is audited and found to have questioned costs involving a subrecipient, the County would be required to return the money to the federal government and would then pursue reimbursement from the subrecipient. We recommend that Workforce Solutions strengthen internal controls to ensure they comply with all grant terms and federal requirements.

- Because a significant percentage of the accounting employees have been in their position for less than two years, there is an increased likelihood of grant reporting errors that could result in the County making incorrect LFRF reimbursements. We recommend Workforce Solutions 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 September 30, 2021, audited financial statements provided by Workforce Solutions:

Financial Statements

- Annual revenues totaled $58,093,969. Revenues were comprised of federal/state grant revenue (82.5%), city/county grant revenue (12.3%), program match revenue (4.1%), other contracts (1.1%), and other revenue (0.0%). Expenditures totaled $58,453,019, which resulted in an excess of expenses over revenues of $359,050.

- Assets totaled $7,261,815 and liabilities $7,151,826, resulting in net assets of $109,989. There was $293,694 of investment in fixed assets, which exceeded total net assets, resulting in a negative unassigned fund balance of ($183,705).

Financial Ratios

Ratios of Concern

The following financial ratios for Workforce Solutions are concerning because they are indicative of an organization that is at great risk of incurring financial difficulties. The details are as follows:

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

- The days cash on hand ratio is 9 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is well below the average of 99 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.

- The savings indicator ratio is -0.61% [(revenues-expenses)/total expenses], which is exceptionally lower than the average of 4.3% for nonprofits of this size[1]. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

- Net assets without donor restrictions as a percentage of total expenses is -0.31%, meaning expenses could not be paid with net assets for one day (-0.31% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so Workforce Solutions is well below the threshold.

Ratios Within Acceptable Limits:

- The current ratio is 1:1 (current assets/current liabilities), which is near the minimum recommended ratio. This ratio measures the nonprofit's ability to pay short term obligations (due within one year) with current assets. If the first number is less than one, it indicates the organization would not have sufficient funds to be able to pay all their current debts if they all became due at once.

- The program efficiency ratio is 90.7% (program expense/total expenses), which is higher than the average of 85.2% for nonprofits of similar size. Ideally, the ratio should be 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

David Jungerman, Chief Assistant County Auditor II
Ely Allen, Financial Analyst II

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.

[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 $1-10 million. Workforce Solutions' assets totaled $7,261,815 on September 30, 2021.

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

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

REPORT DISTRIBUTION

Amy Clark Meachum, Judge, 201st Judicial District
Jan Soifer, Judge, 345th 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
Pilar Sanchez, County Executive, Health & Human Services
Lawrence Lyman, Division Director, Health & Human Services
Prema Gregerson, Attorney VII, County Attorney's Office
Barbara Wilson, Attorney VII, County Attorney's Office
Cynthia Sayles, Grants Manager, Travis County Auditor's Office
Christy Moffett, Director, Economic Development & Strategic Investments, PBO
Auditor's Office Managers
Risk Assessment File

DocuSign Envelope ID: 8C68574B-2A8B-4C15-AEA0-C604A3978C5A

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