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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Mobile Loaves & Fishes
January 25, 2022

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To: Christy Moffett, MSSW
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From: Patti Smith, CPA
Travis County Auditor

Date: January 25, 2022

Subject: Mobile Loaves & Fishes 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) Division of the Travis County Auditor's Office has completed a risk assessment of grant subrecipient Mobile Loaves & Fishes (MLF); 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 MLF to be medium; details about risk criteria rated high and very high are provided in

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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 MLF:

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 MLF, noting the following.

Although some of the procedures were 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.

Very High-Risk Rating:

Single Audit

MLF has not undergone a Single Audit because they have not yet met the spending threshold of $750,000 or more of federal grant funds. The purpose of a Single Audit is to determine if the federal grant recipient complies with the applicable grant rules and regulations. There is increased risk associated with this subrecipient, since the County cannot obtain an external auditor's opinion on this entity's compliance with LFRF grant rules and regulations. Because the County is a pass-through entity, if the subrecipient is noncompliant, the County is also noncompliant.

State/Federal monitoring

MLF has not been subjected to state or federal grant monitoring, as they did not receive state or federal grant funds prior to 2021. As with the lack of Single Audit, the County cannot obtain information on MLF's handling of grant funds that could be obtained from monitoring reports.

Grant Award Amount

MLF has requested $35 million in LFRF funds for a project with a budget of $75 million – a substantial 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

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of the percentage of contribution, triggers the CFR requirements, including those applicable to real property.

RECOMMENDATIONS FOR IMPROVEMENT

The federal government set the requirement that entities maintain documented procedures to improve the entity's internal control environment and adherence to 2 CFR 200. If a subrecipient is unable to provide the requested procedures, it is likely they have not determined the steps needed to comply with these federal requirements.

FINANCIAL OBSERVATIONS

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

Financial Statements

- Annual revenues totaled $15,817,812. Revenues were comprised of public support (89.1%), rent income (6.5%), and other revenue (4.4%). Expenditures totaled $9,376,049, which resulted in an excess of revenues over expenditures of $6,441,763.

- Assets totaled $63,244,511, and liabilities $19,646,283, resulting in net assets[1] of $43,598,228. There were donor restrictions of $8,326,020 on these net assets.

Financial Ratios

Ratios of Concern:

- The contributions and grants ratio is 89.1% [(contributions + grant revenue)/total revenue], which is significantly more than the average of 15% for nonprofits of this size[2]. 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 expense ratio is 6.2% (fundraising expenses/total expenses), which is greater than the average of 0.8% 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. Although their fundraising expense ratio is high, their fundraising efficiency is better than nonprofits of similar size (See the following section.).

[1] Nonprofit net assets are the same as fund balance for governments or retained earnings for private entities.

[2] 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 more than $50 million. MLF's assets totaled $63,244,511 on December 31, 2020.

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Ratios Within Acceptable Limits*:*

- The fundraising efficiency ratio is $24.24 [total contributions (other than government grants)/fundraising expenses], which is almost twice the average of $12.86 for nonprofits of this size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising.

- The current ratio is 23:1 (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 program efficiency ratio is 86.6% (program expense/total expenses), which is equal to the average for nonprofits of similar size. 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.

- The days cash on hand ratio is 486 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is notably greater than the average of 57 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 68.7% [(revenues - expenses)/total expenses], which is exceptionally higher than the average of 9.6% for nonprofits of this size. 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 376.2%, meaning expenses could be paid with net assets for 1,373 days (376.2% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so at more than three years, MLF substantially exceeds the guideline.

RISK ASSESSMENT TEAM

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Amanda Muehlberg, CPA, Financial Analyst IV

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