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Travis County Auditor's Office
Subrecipient Risk Assessment Results – LifeWorks
January 25, 2022

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From: Patti Smith, CPA
Travis County Auditor

Date: January 25, 2022

Subject: LifeWorks 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 LifeWorks; 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 LifeWorks to be low; details about risk criteria rated very high are provided in the Areas

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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 LifeWorks:

Very High-Risk Rating:

Personnel Experience and/or Turnover
LifeWorks has 10 accounting and four grant employees. Of these 14 employees, six (60%) have been in their position for less than two years, and there are currently two open positions. Four (40%) of the accounting and grant employees left their positions within the last 18 months, including the CFO, accounting manager, grant accountant, and a grants and compliance specialist.

Grant Award Amount
LifeWorks has requested $14 million in LFRF funds for a project with a budget of $24 million. This is a substantial amount to the County. The risk of loss of County funds corresponds with the size of the subrecipient grant award. 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

Because a significant percentage of the accounting and grant 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 that LifeWorks ensure their system of internal controls includes 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, 2020 audited financial statements provided by LifeWorks:

Financial Statements

- Annual revenues totaled $17,639,528. Revenues were comprised of grant and contract revenue (71.7%), contributions and public support (21.2%), fees for services (6.4%), and other revenue (0.7%). Expenditures totaled $17,768,092, resulting in an excess of expenses over revenues of $128,564.

- Assets totaled $26,541,381 and liabilities $12,148,573, resulting in net assets of $14,392,808. There were donor restrictions of $3,230,312 on the net assets.

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Financial Ratios

Ratios of Concern:

- The savings indicator ratio is -0.7% [(revenues - expenses)/total expenses], which, as a negative, is considerably less that the average of 4.5% for nonprofits of this size. This ratio measures the net revenues that are retained by the organization as a percentage of expenses. LifeWorks has a negative ratio because their expenses exceeded their revenue by $128,564 during fiscal year 2020. We also performed this calculation using the unaudited financial statements dated September 30, 2021, noting the ratio had worsened to -2.9%. This is the result of a significant increase in expenses over revenues to $586,908 for fiscal year 2021.

- The fundraising efficiency ratio is $3.78 [total contributions (other than government grants)/fundraising expenses], which is substantially less than the average of $11.93 for nonprofits of similar size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising.

- The fundraising expense ratio is 5.6% (fundraising expenses/total expenses), which is notably greater than the average of 1.6% for nonprofits of this size. Generally, donors prefer that revenue 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 2:1 (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 78.1% (program expenses/total expenses), which is less than the average of 86.2% 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.

- The Days cash on hand ratio is 75 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is almost the same as 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.

- Net assets without donor restrictions as a percentage of total expenses is 62.8%, meaning expenses could be paid with net assets for 229 days (62.8% x 365 days). The Government Finance Officers Association recommends having a minimum of two months.

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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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 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 High
10. Internal Control Questionnaire	Low
11. Documented procedures 2 CFR 200	Low
Overall Risk Rating	Low