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Travis County Auditor's Office
Subrecipient Risk Assessment Results – SAFE Alliance
August 4, 2023

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From: Patti Smith, CPA
Travis County Auditor

Date: August 4, 2023

Subject: SAFE Alliance 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 (REC) Division of the Travis County Auditor's Office has completed a risk assessment of grant subrecipient SAFE Alliance (SAFE); 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 12 criteria. The ratings for these criteria are then utilized to assign an overall risk rating to the subrecipient of very low, low, medium, high, or very high. We determined the overall risk rating for SAFE to be medium; 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 12 risk criteria.

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AREAS OF CONCERN

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

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 SAFE, 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.

Very High-Risk Rating:

Grant Award Amount
SAFE has requested over $7 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 concerns reported above are 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 the following to SAFE:

- The federal government requires their grant recipients to document, implement and maintain procedures for several 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. SAFE should review their current

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procedures and make improvements as necessary to ensure compliance with all grant terms and federal requirements as stated in 2 CFR 200.

FINANCIAL OBSERVATIONS

The following observations are based on the March 31, 2022, audited financial statements provided by SAFE:

Financial Statements

- Annual revenues totaled $30,911,389. Revenues were comprised of grants and contracts (40.7%), contribution and public support (25.5%), PPP loan forgiveness (9.4%), contract revenue (6.6%), rental revenue (6.2%), net assets released from restrictions (2.1%), and other revenue (9.4%). Expenditures totaled $28,263,654, which resulted in an excess of revenues over expenditures of $2,647,735.

- Assets totaled $45,897,469 and liabilities $8,437,296, resulting in net assets of $37,460,173. There were donor restrictions of $9,096,423 on these net assets.

Financial Ratios

Ratios of Concern:

- The days cash on hand ratio is 78 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is slightly over the average of 76 days for nonprofits of this size[1]. This calculation measures the number of days of expenses that can be covered from existing cash and cash equivalents.

- The contributions and grants ratio is 66.2% [(contributions + grant revenue)/total revenue], which is substantially over the average of 59.0% for nonprofits of this size. 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 efficiency ratio is $6.42 [total contributions (other than government grants)/fundraising expenses], which is below the average of $11.93 for nonprofits of this size. This ratio measures the dollar amount of contributions raised for each dollar spent on fundraising, so a higher amount is better.

- The fundraising expense ratio is 4.3% (fundraising expenses/total expenses), which is well over the average of 1.6% for nonprofits of similar size. Generally, donors prefer revenues to 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.

[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 $10,000,000 to $50,000,000. SAFE's assets totaled $45,897,469 on March 31, 2022.

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Ratios Within Acceptable Limits*:*

- The current ratio is 5.8:1 (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 47.8%, meaning expenses could be paid with net assets for 174 days (47.8% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so SAFE easily meets this threshold.

- The program efficiency ratio is 84.2% (program expense/total expenses), while the average for nonprofits of similar size is 86.2%. Ideally, the ratio is at least 75% but less than 90%. It is important to invest in infrastructure to help ensure a strong administrative support system for program activities.

- The savings indicator ratio is 9.4% [(revenues - expenses)/total expenses], which is above the average for nonprofits of this size of 4.5%. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

RISK ASSESSMENT TEAM

Ely Allen, Financial Analyst II

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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	Medium
10. Internal Control Questionnaire	Medium
11. Documented procedures 2 CFR 200	High
12. Financial Ratios	Medium
Overall Risk Rating	Medium