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Travis County Auditor's Office
Subrecipient Risk Assessment Results – The Arc of the Capital Area
Fiscal Year 2023

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To: Pilar Sanchez, County Executive
Health & Human Services

From: Patti Smith, CPA
Travis County Auditor

Date: November 7, 2022

Subject: The Arc of the Capital Area – Subrecipient Risk Assessment Results

Travis County obtained Community Development Block Grant CARES Act (CDBG-CV) federal grant funds to run the Virtual Group Day Services for Adults with Disabilities Program. This program provides virtual curriculum, community learning environments, and mental health support to low to moderate income residents in the Travis County CDBG service area. The County, acting as a pass-through entity, granted The Arc of the Capital Area CDBG-CV funds to administer this program.

When the County remits federal grant 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 The Arc of the Capital Area (The Arc); 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 The Arc to be low; details about the risk criteria rated high and very high are provided

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in 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 and very high. We noted the following for The Arc:

High Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years
During March 2022, The Texas Department of Aging and Disability Services (DADS) performed a monitoring visit of The Arc's Community Living Assistance and Support Services Program (CLASS), noting financial errors totaling $1,079. The Arc indicated the erroneous payments were recouped from a subsequent reimbursement and provided a copy of their Corrective Action Plan. Although we made multiple requests to The Arc to provide documentation from DADS to substantiate the erroneous payments were recouped, and that the monitoring case had been closed, but The Arc failed to do so.

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 The Arc, 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:

Single Audit
The ARC 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 has complied 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 past compliance with federal grant rules and regulations.

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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 The ARC:

- The ARC should strengthen internal controls to ensure compliance with all grant terms and other federal requirements.

- The ARC should also improve their record keeping for their monitoring visits. They should request a final monitoring report from the monitoring entity indicating whether all findings have been cleared if one is not provided.

- Management of The ARC should review their current documented procedures and make improvements as necessary to ensure the procedures are compliant with 2 CFR 200.

FINANCIAL OBSERVATIONS

The following observations are based on the December 31, 2020[1] audited financial statements provided by The Arc:

Financial Statements

- Annual revenues totaled $2,741,017. Revenues were comprised of program services revenue (38.4%), contributions and grants revenue (28.0%), contract revenue (22.6%) and other revenue (11.0%). Expenditures totaled $2,267,855 resulting in an excess of revenues over expenditures of $473,162.

- Assets totaled $3,334,779 and liabilities totaled $1,591,941, resulting in net assets of $1,742,838. There were donor restrictions on $145,954 of the net assets.

Financial Ratios

Ratio of Concern:
The fundraising expense ratio is 10.1% (fundraising expenses/total expenses), which is much higher than the average of 2.2% for nonprofits of similar size[2]. Generally, donors prefer revenues

[1] The audit report for the Arc's December 31, 2021 financial statements had not been distributed when we performed the risk assessment.
[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 $1 to $10 million. The Arc's assets totaled $3,334,779 on December 31, 2020.

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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 7:2 (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 70.4%, meaning expenses could be paid with net assets for 257 days (70.4% x 365 days). The Government Finance Officers Association recommends having a minimum of two months on hand, so The Arc is well above this threshold.

- The program efficiency ratio is 71.1% (program expense/total expenses), which is less than the average of 85.2% for nonprofits of this size. Ideally, the ratio is at least 75%, but less than 90%. Although it is important to invest in infrastructure to ensure there is a strong administrative support system for program activities, sufficient funds must be available to pay program expenses.

- The savings indicator ratio is 20.9% [(revenues - expenses)/total expenses], which is considerably 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.

- The days cash on hand ratio is 152 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is much more than 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 contributions and grants ratio is 28.0% [(contributions + grant revenue)/total revenue], which is less than the average of 47% for nonprofits of similar 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.

RISK ASSESSMENT TEAM

Joanne Englund, CPA, Financial Analyst VI
Ely Allen, Financial Analyst II

CLOSING

This report is intended solely for the information and use of County departments and offices involved with processing CDBG-CV 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	Low
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	High
9. Personnel experience and/or turnover	Very Low
10. Internal Control Questionnaire	Low
11. Documented procedures 2 CFR 200	High
Overall Risk Rating	Low