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Travis County Auditor's Office
Subrecipient Risk Assessment Results – Austin Child Guidance Center
July 25, 2023

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From: Patti Smith, CPA
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Date: July 25, 2023

Subject: Austin Child Guidance Center
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 Austin Child Guidance Center (ACGC); 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 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 ACGC to be medium; details about risk criteria rated high

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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.

AREAS OF CONCERN

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

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 United Way, 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

ACGC has not undergone a Single Audit because they have not managed 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. As previously mentioned, the County is a pass-through entity, so if the subrecipient is noncompliant, the County is also noncompliant.

State/Federal Agency Monitoring During the Past 3 Years

ACGC was not subjected to state or federal grant monitoring during the past 3 years. The purpose of monitoring is to determine if the grant recipient has complied with applicable grant rules and regulations. There is increased risk associated with this subrecipient since the County is unable to obtain information about this entity's past compliance with grant rules and regulations. Because the County is a pass-through entity, if the subrecipient is noncompliant, the County is also noncompliant.

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RECOMMENDATIONS FOR IMPROVEMENT

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

- 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. Because the County is a pass-through entity, if the subrecipient is noncompliant, the federal government will also consider the County to be noncompliant. ACGC should review their current procedures and make improvements as necessary to ensure compliance with all grant terms and federal requirements as stated in 2 CFR 200.

- ACGC's lack of experience with federal grants and regulations could result in a loss of County funds and/or difficulty with the grantor. We recommend ACGC ensure they implement a strong system of internal controls for their accounting and grant processes.

FINANCIAL OBSERVATIONS

The following observations are based on the August 31, 2021, audited financial statements provided by ACGC:

Financial Statements

- Annual revenues totaled $2,812,966. Revenues were comprised of contributions (46.5%), grants and contracts (39.1%), casualty gain (from building damage) (10.2%), program service fees (2.6%), investment income (1.4%), and other revenue (0.1%). Expenditures totaled $2,498,253, which resulted in an excess of revenues over expenses of $314,713.

- Assets totaled $1,489,285 and liabilities $1,051,244, resulting in net assets of $438,041. There were donor restrictions of $459,182 on these net assets.

Financial Ratios

Ratios of Concern

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

- Net assets without donor restrictions as a percentage of total expenses is -0.8%, meaning expenses could not be paid with net assets for one day (-0.8% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so ACGC is well below the threshold.

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- The days cash on hand ratio is 47 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is well below the average of 99 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 85.6% [(contributions + grant revenue)/total revenue], which is substantially more than the average of 47% 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 $6.55 [total contributions (other than government grants)/fundraising expenses], which is well below the average of $11.45 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 8.0% (fundraising expenses/total expenses), which is well over the average of 2.2% 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.

Ratios Within Acceptable Limits:

- The current ratio is 2.2:1 (current assets/current liabilities), with 1:1 being 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 87.0% (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.

- The savings indicator ratio is 12.6% [(revenues-expenses)/total expenses], which is much higher than the average of 4.3% for nonprofits of this size. 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

[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. ACGC' assets totaled $1,489,285 on August 31, 2021.

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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	**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	**Very 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**
12. Financial Ratios	**High**
Overall Risk Rating	**Medium**