DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

Travis County Auditor's Office
Subrecipient Risk Assessment Results – Workforce Solutions - Capital Area Workforce Board
February 22, 2022

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

TRAVIS COUNTY
AUDITOR'S OFFICE

PATTI SMITH, CPA
COUNTY AUDITOR

TRAVIS COUNTY
700 LAVACA
P.O. BOX 1748
AUSTIN, TX 78767
(512) 854-9125
FAX: (512) 854-9164

To: Pilar Sanchez, County Executive
Health & Human Services

From: Patti Smith, CPA
Travis County Auditor

Date: February 22, 2022

Subject: Workforce Solutions - Capital Area Workforce Board
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 Workforce Solutions - Capital Area Workforce Board (Workforce Solutions); 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 Workforce Solutions to be medium; details about risk criteria rated high and very high

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

are provided 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 or very high. We noted the following for Workforce Solutions:

High Risk Rating:

State/Federal Agency Monitoring During the Past 3 Years

Texas Workforce Commission (TWC) performed two monitoring visits of Workforce Solutions during 2019 and 2021, which resulted in the following findings:

- Monitoring visit 2021 – There were questioned costs totaling $12,202 that involved incorrect payments to a childcare provider for two service months from the Stabilization Grant and the 25% enhancement rate for one month. The childcare provider was not entitled to these payments because their business was open during this time. Workforce Solutions indicated the questioned costs resulted from fraud on the part of the childcare provider; however, we did not see mention of fraud in the monitoring report or follow-up emails from TWC. An email from TWC dated February 1, 2021, indicated they are still working with Workforce Solutions to resolve the finding.

- Monitoring visit 2019 – There was one procurement for which written notification was not provided to unsuccessful bidders. Federal and state requirements dictate notification be made within three days after the date of the award.

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 Workforce Solutions, noting the following:

Although some of the procedures appear 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.

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

Very High-Risk Rating:

Personnel Experience and/or Turnover

Workforce Solutions has seven accounting positions and five programmatic employees who provide grant reporting. Of the seven accounting positions, four (57.1%) employees have been in their position for less than two years, and one (14.3%) is an open position. There is an increased risk of errors for newly hired employees who need time to become proficient in their jobs.

Grant Award Amount

Travis County has set aside LFRF funds totaling over $7 million for the Workforce Solutions programs covering workforce development and childcare assistance. 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.

RECOMMENDATIONS FOR IMPROVEMENT

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

- A finding for questioned costs on a monitoring report is significant. It means the grant recipient has not complied with grant terms and is required to return the money to the grantor. It also signifies an increased risk of future audit findings and loss of County funds if they become a subrecipient of the County. If the County is audited and found to have questioned costs involving a subrecipient, the County would be required to return the money to the federal government and would then pursue reimbursement from the subrecipient. We recommend that Workforce Solutions strengthen internal controls to ensure they comply with all grant terms and federal requirements.

- The federal government requires grant recipients to document, implement, and maintain procedures for a number of 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. We recommend Workforce Solutions review their current procedures to determine where they are not sufficient to address federal requirements, making improvements as needed.

- Because a significant percentage of the accounting 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 Workforce Solutions ensure their system of internal controls includes sufficient independent supervisory review of the work completed by the new employees, providing training as needed.

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

FINANCIAL OBSERVATIONS

The following observations are based on the September 30, 2020, audited financial statements provided by Workforce Solutions:

Financial Statements

- Annual revenues totaled $53,765,103. Revenues were comprised of federal/state grant revenue (83.6%), city/county grant revenue (9.6%), program match revenue (3.8%), other contracts (1.1%), and other revenue (1.9%). Expenditures totaled $53,747,849, which resulted in an excess of revenues over expenses of $17,254.

- Assets totaled $7,090,118, and liabilities $6,761,943, resulting in net assets of $328,174. There were no donor restrictions on $93,783 of the net assets, and the remaining $234,391 was comprised of investment in fixed assets.

Financial Ratios

Ratios of Concern

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

- The days cash on hand ratio is 16 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is well below 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 savings indicator ratio is 0.03% [(revenues-expenses)/total expenses], which is exceptionally lower than the average of 4.3% for nonprofits of this size[1]. 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 0.2%, meaning expenses could be paid with net assets for only one day (0.2% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so Workforce Solutions is well below the threshold.

Ratios Within Acceptable Limits:

- The current ratio is 1:1 (current assets/current liabilities), which is 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.

[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. Workforce Solutions' assets totaled $7,090,118 on September 30, 2020.

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

- The program efficiency ratio is 90.5% (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.

RISK ASSESSMENT TEAM

Joanne Englund, CPA, Financial Analyst VI
Amanda Muehlberg, CPA, Financial Analyst IV

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.

DocuSigned by:
David Jungerman
5B5801D13DFE48D...
David Jungerman, CIA
Chief Assistant County Auditor II
Risk Evaluation & Consulting Division

DocuSigned by:
Patti Smith
53FF54208085479...
Patti Smith, CPA
Travis County Auditor

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

REPORT DISTRIBUTION

Amy Clark Meachum, Judge, 201st Judicial District
Brenda Kennedy, Judge, 403rd Judicial District
Andy Brown, County Judge
Jeff Travillion, Commissioner, Precinct 1
Brigid Shea, Commissioner, Precinct 2
Ann Howard, Commissioner, Precinct 3
Margaret Gomez, Commissioner, Precinct 4
Jessica Rio, County Executive, Planning & Budget Office
Lawrence Lyman, Division Director, Health & Human Services
Prema Gregerson, Attorney VII, County Attorney's Office
Risk Assessment File

DocuSign Envelope ID: 6820D11C-51B3-4DE4-8A88-C6C459D1613C

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	High
9. Personnel experience and/or turnover	Very High
10. Internal Control Questionnaire	Low
11. Documented procedures 2 CFR 200	High
Overall Risk Rating	**Medium**