DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

Travis County Auditor's Office
Subrecipient Risk Assessment Results – A New Entry
February 24, 2022

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

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: Christy Moffett, MSSW
Director, Economic Development & Strategic Investments
Travis County Planning & Budget Office

From: Patti Smith, CPA
Travis County Auditor

Date: February 24, 2022

Subject: A New Entry 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 A New Entry (ANE); 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 ANE to be medium; details about risk criteria rated high and very high are provided in

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

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 ANE:

High Risk Rating:

Experience Managing Grant Funds
Although ANE has had service contracts with the federal government for more than 10 years, the contracts were not funded by grants. In addition to having no federal grant experience, ANE has less than one year of state grant experience. Consequently, ANE has not been required to comply with federal regulations and grant rules in the past. This lack of experience represents an increased risk to the County; if ANE becomes noncompliant, the County is also noncompliant.

Very High-Risk Rating:

Single Audit
ANE 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.

Grant Award Amount
ANE has requested over $5 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

ANE'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 ANE ensure they implement a strong system of internal controls for their accounting and grant processes.

FINANCIAL OBSERVATIONS

The following observations are based on the December 31, 2020, audited financial statements provided by ANE:

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

Financial Statements

- Annual revenues totaled $2,270,560. Revenues were comprised of service fees for federal (58.8%) and state (29.4%) contracts, contributions (6.8%), program service fees (2.9%), and other revenue (2.1%). Expenditures totaled $2,144,730, which resulted in an excess of revenues over expenditures of $125,830.

- Assets totaled $700,579, and liabilities $360,827, resulting in net assets of $339,752. There were donor restrictions of $44,731 on these net assets.

Financial Ratios

Ratios of Concern:

- The days cash on hand ratio is 86 days (cash + cash equivalents)/[(total expenses - depreciation expense)/365 days], which is significantly less than the average of 146 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 fundraising expense ratio is 2.5% (fundraising expenses/total expenses), which is greater than the average of 2.2% for nonprofits of similar size. Generally, donors prefer revenues 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.

- The fundraising efficiency ratio is $2.88 [total contributions (other than government grants)/fundraising expenses], which is well below the average of $16.47 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.

- Net assets without donor restrictions as a percentage of total expenses is 13.8%, meaning expenses could be paid with net assets for 50 days (13.8% x 365 days). The Government Finance Officers Association recommends having a minimum of two months, so ANE falls below this threshold.

Ratios Within Acceptable Limits*:*

- The contributions and grants ratio is 6.8% [(contributions + grant revenue)/total revenue], which is substantially less than the average of 56.0% 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 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.

[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 $500,000 to $1 million. ANE's assets totaled $700,579 on December 31, 2020.

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

- The program efficiency ratio is 87.0% (program expense/total expenses), while the average for nonprofits of similar size is 86.1%. 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 5.9% [(revenues - expenses)/total expenses], while the average for nonprofits of this size is 6.0%. This ratio measures the net revenues that are retained by the organization as a percentage of expenses.

RISK ASSESSMENT TEAM

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

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

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
5B6801D13DFE48D...
David Jungerman, CIA
Chief Assistant County Auditor II
Risk Evaluation & Consulting Division

DocuSigned by:
Patti Smith
53EF54208085479...
Patti Smith, CPA
Travis County Auditor

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
Pilar Sanchez, County Executive, Health & Human Services
Lawrence Lyman, Division Director, Health & Human Services
Prema Gregerson, Attorney VII, County Attorney's Office
Barbara Wilson, Attorney VII, County Attorney's Office
Risk Assessment File

DocuSign Envelope ID: 560A80D4-A3DB-4F67-B052-75336857DED8

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	High
4. Grant experience: dollar amount of grant revenue for most recent fiscal year.	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	Low
9. Personnel experience and/or turnover	Very Low
10. Internal Controls Questionnaire	Medium
11. Documented procedures 2 CFR 200	Low
Overall Risk Rating	Medium