

February 10, 2015

REPORT #: 2015-09

Jess Duran, Director
Community Services and Parks Department

Dear Jess,

Enclosed is the Community Development Block Grant (CDBG) Financial Ratio Analysis for Fiscal Year 2015-16 Applicants. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the audit.

Should you have any questions, please feel free to contact Natalie Minami-Valdivia or myself.

Thank you,



Michele Flynn,

City Auditor

Enclosure

cc: Yasmin Beers, Assistant City Manager
Moises Carrillo, Senior Community Development Supervisor
Robert Elliot, Director of Finance
Scott Ochoa, City Manager
City Council
Audit Committee

**Community Development Block Grant (CDBG)
Financial Ratio Analysis for Fiscal Year 2015-16
Applicants**

February 10, 2015

Background

In accordance with Internal Audit's Fiscal Year (FY) 2014-15 audit work plan, Internal Audit has completed a financial ratio analysis for all Community Development Block Grant (CDBG) funding applicants. Six financial ratios that would be relevant and useful to the CDBG Advisory committee during their application evaluation process were calculated from the financial statements or audits submitted by each of the organizations. The financial statement or audit consisted of either: 1) an unaudited financial statement compilation or 2) an annual independent financial audit.

It is important to note that Internal Audit is not expressing an opinion on the financial health of any of the organizations requesting funding. The financial ratio analysis provided to the CDBG Advisory Committee is another tool the committee can utilize to assist in their decision making.

Scope and Procedures

Based upon research and discussion with Community Services & Parks (CSP) staff, the following six ratios were selected to be calculated for each of the CDBG funding applicants:

1. Functional Cost Allocation

This ratio reflects the percentage of funds being spent on non-program related expenses such as general and administrative expenses relative to total expenses. The calculation of the functional cost allocation ratio is "total fundraising, general & administrative expense" divided by "total expenses".

2. Current Ratio

This ratio reflects the organization's ability to pay obligations in a timely manner (within 12 months). A ratio of less than one suggests that the company would be unable to pay off its obligations if they became due as of the balance sheet date. The calculation of the current ratio is "current assets" divided by "current liabilities".

3. Debt Ratio

This ratio reflects the proportion of debt a company has relative to its assets. The measure gives an idea as to the leverage of the company along with the potential risks the company faces in terms of its debt-load. A debt ratio of greater than one indicates that an organization has more debt than assets, while a debt ratio of less than one indicates that an organization has more assets than debt. The calculation of the debt ratio is "total liabilities" divided by "unrestricted net assets".

4. Defensive Interval

This ratio reflects the number of months that the organization could operate if no additional funds were received. The calculation of the defensive interval ratio is liquid assets such as cash, marketable securities, and certain receivables divided by the average monthly expenses.

5. Reliance on Source Income
This ratio provides an awareness of the risk of a major reduction in income if this source of contributed income is reduced or stopped. The calculation of this ratio is the largest type of income divided by total income.
6. Fundraising Efficiency
This ratio reflects the average dollar amount of contributions raised from each dollar spent on fundraising. Contributed income includes individual donors, corporate donors, foundation grants, fundraising events, government funds, in-kind donations, and planned giving. The calculation of the fundraising efficiency is contributed income divided by “fundraising expense”.

Additionally, based upon criteria of the CDBG funding application requirements, we reviewed the financial statements submitted with the applications to ensure the following:

1. Annual financial statement or audit for the past two years was provided.
2. The appropriate types of financial statements were submitted (compilation or audited financial statements).
3. Entities that received in excess of \$500,000 in Federal grants had a single audit completed within 180 days of the fiscal year end.

4. No deficiencies or item of non-compliance were noted within the financial statements provided.

Summary of Results

It should be noted that the Request for Proposal (RFP) required each applicant to submit an annual financial statement or audit for the past two years. Of the 12 applications received, nine agencies submitted either audited financial statements or compiled financial statements for the past two fiscal years, one agency submitted a draft audited financial statement for the most current fiscal year and an audited financial statement for the prior fiscal year, and two agencies are currently in the process of completing their audits for the most current fiscal year and have submitted audited financial statements for the two prior years.

Regardless of the type of financial statements or the fiscal years provided, Internal Audit performed the same financial statement ratio calculations for the latest fiscal year’s financial statements provided. Internal Audit utilized the numbers present within the financial statements submitted without performing any verification procedures. See Table 1 for the ratios calculated for the most current fiscal year ended and Table 2 for those entities without current year financial statements.

A summary ratio analysis was prepared and provided to the CSP staff for each organization that applied for CDBG funding and will be included within the background summary information provided to the CDBG Advisory Committee for consideration during their evaluation process. In three

instances, a financial ratio could not be calculated because the financial statements did not provide sufficient detail for the calculation (i.e. did not specify fundraising expense). Based upon a review of the financial statements provided, Internal Audit noted the following:

Internal Audit would like to thank you and your staff for the support and assistance provided to us during this project. Should you have any questions, please feel free to contact Natalie Minami-Valdivia or myself.

- Three entities did not submit the required complete financial statements for the past two years:
 - Both the Housing Rights Center, Inc. and Ascencia did not submit audited financial statements for the most recent fiscal year end of June 30, 2014.
 - Glendale Youth Alliance, Inc. submitted draft audited financial statements for the fiscal year ended June 30, 2014.
- Five of seven entities did not comply with the City's application requirement that entities that receive in excess of \$500,000 in Federal grants have a single audit completed within 180 days of the fiscal year end. These entities included Housing Rights Center, Inc. Glendale Youth Alliance, Inc., Ascencia, The Salvation Army Southern California Division Los Angeles County, and All for Health, Health for All, Inc.
- Glendale Youth Alliance, Inc. had one audit finding for not submitting the June 30, 2013 Single Audit Report timely to the Federal Clearinghouse as required by the OMB Circular A-133.

TABLE 1
MOST RECENT FISCAL YEAR FINANCIAL RATIOS

| | Functional Cost Allocation Ratio | Current Ratio | Debt Ratio | Defensive Interval (in months) | Reliance on Source of Income | Fundraising Efficiency |
|---|----------------------------------|------------------|------------|--------------------------------|------------------------------|------------------------|
| 1. Armenian Relief Society of Western USA, Inc. | 16% | 5.82 | 0.21 | 4.14 | 93% | N/A ¹ |
| 2. Housing Rights Center, Inc.* | - | - | - | - | - | - |
| 3. Catholic Charities of Los Angeles, Inc. | 12% | 2.48 | 0.49 | 3.55 | 36% | \$90.46 |
| 4. Glendale Youth Alliance, Inc.** | 24% | 3.89 | 0.35 | 0.97 | 46% | \$88.21 |
| 5. Ascencia* | - | - | - | - | - | - |
| 6. Homenetmen Glendale Ararat Chapter | 13% | 2.29 | 1.28 | 1.03 | 43% | \$10.60 |
| 7. The Salvation Army Southern California Division Los Angeles County | 8% | 3.49 | 0.59 | 1.22 | 35% | \$13.51 |
| 8. Door of Hope | 21% | 7.87 | 0.08 | 6.56 | 48% | \$10.27 |
| 9. Committee for Armenian Students in Public Schools | 16% | N/A ² | 0.00 | 8.61 | 57% | \$30.16 |
| 10. All for Health, Health for All, Inc. | 12% | 9.12 | 0.11 | 4.95 | 80% | \$25.39 |
| 11. Glendale Healthy Kids | 25% | 4.86 | 3.16 | 4.23 | 36% | \$9.21 |
| 12. Adventist Health | 13% | 2.25 | 1.25 | 3.32 | 96% | N/A ¹ |

* Most current fiscal year end financial statements were not submitted. See Table 2 for the financial ratios calculated based upon prior year financial statements provided.

** Draft financial statements submitted for most current fiscal year end.

N/A¹ Financial statements indicate no fundraising expenses.

N/A² The compiled financial statements indicate no liabilities at year end.

TABLE 2

FINANCIAL RATIOS CALCULATED BASED UPON JUNE 30, 2013 FINANCIAL STATEMENTS PROVIDED

The following entities did not provide financial statements for the most recent fiscal year end. These ratios were calculated from the financial statements of the prior year.

| | Functional Cost Allocation Ratio | Current Ratio | Debt Ratio | Defensive Interval (in months) | Reliance on Source of Income | Fundraising Efficiency |
|------------------------------------|---|----------------------|-------------------|---------------------------------------|-------------------------------------|-------------------------------|
| Housing Rights Center, Inc. | 2% | 5.93 | 0.20 | 7.51 | 82% | N/A ¹ |
| Ascencia | 15% | 3.00 | 0.89 | 5.25 | 68% | \$15.62 |

N/A¹ Financial statements indicate no fundraising expenses.