

**PORTLAND
CHILDREN'S LEVY**

Compliance Examination

**For the Year Ended
June 30, 2011**



McDONALD JACOBS

INDEPENDENT ACCOUNTANT'S REPORT

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To the Allocation Committee
Portland Children's Levy
Portland, Oregon

We have examined the Portland Children's Levy's compliance with laws and regulations outlined in Measure 26-94, the five-year levy renewed by voters in November 2008, for the year ended June 30, 2011. Management is responsible for Portland Children's Levy's compliance with those requirements. Our responsibility is to express an opinion on Portland Children's Levy's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Portland Children's Levy's compliance with those requirements, internal control over compliance, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Portland Children's Levy's compliance with specified requirements.

In our opinion, Portland Children's Levy complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

A summary of procedures performed, findings, and recommendations is attached.

McDonald Jacobs, P.C.

December 1, 2011

Strength in Numbers

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**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS
For the Year Ended June 30, 2011**

1. OVERVIEW OF PORTLAND CHILDREN'S LEVY

In 2008, Portland voters passed Measure 26-94, renewing the Portland Children's Levy (PCL) for five years. The Levy is funded through property tax assessments to provide approximately \$60 million over five years to support programs for children.

The key requirements of Measure 26-94 are as follows:

Funds can only be used for:

- **Early childhood programs**, which provide early childhood education and intervention, parenting education, and access to immunizations and health screenings so children enter kindergarten ready to succeed.
- **After school and mentoring programs**, which promote academic achievement, provide role models, and increase children's engagement in school.
- **Child abuse prevention and intervention programs**, which provide services to reach children affected by family violence, parental drug and alcohol use, and homelessness, and to support families most at risk for abuse and neglect.
- **Foster care programs**, which improve the lives of children in foster care.

Accountability measures include:

- Programs funded must be cost effective and have a proven record of success (**not tested as part of this examination**).
- Investment fund is subject to oversight by a citizen committee (**not tested as part of this examination**).
- Investment fund is subject to annual compliance audits (examinations).
- Administrative costs cannot exceed 5% of cumulative tax revenues.

**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the Year Ended June 30, 2011**

2. PROCEDURES PERFORMED AND RESULTS OF COMPLIANCE TESTING

- a. We gained an understanding of the organizational philosophy, objectives and policies for operating PCL, as well as significant regulatory and accounting matters.
- b. We reviewed governing and other key documents including the ballot language, requests for investment (grants), grant agreements, and external contracts.

c. Administrative Expenses - Overview

All administrative invoices are reviewed by PCL's Fiscal and Administrative Specialist and approved by PCL's Director. Bids are obtained for expenses that will exceed \$5,000 and the contracts are approved by Portland City Commissioner Dan Saltzman, Chair of the Allocation Committee for the fund. Once approved, administrative expenses are entered into the City's accounting system (SAP). The City's accounting department issues disbursement checks for these expenses. The checks are reviewed and mailed by the Office of the Auditor. The City's accounting system provides real-time reporting of revenue and expense.

Internal materials and service costs are charged by the internal service agencies and include Office of Management and Finance (OMF) General Fund Overhead Allocation (amount fixed annually), Bureau of Technology Services (annual fixed amount plus billable expenses), Communications (telephone network; billed monthly), Printing and Distribution (mass mailing costs; billed as incurred). The cost of these services and materials are billed through SAP.

Tests of Compliance

We tested compliance, including whether administrative expenses were less than 5% of cumulative tax revenues (including related interest) and that administrative expenses were ordinary, necessary and approved.

**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the Year Ended June 30, 2011**

**2. PROCEDURES PERFORMED AND RESULTS OF COMPLIANCE
TESTING, Continued**

Tests of Compliance, Continued

Specifically:

- We selected 25 disbursements for personnel and administrative expenses incurred by PCL and examined supporting documentation and compared to reports obtained from the City's accounting system.
- We performed analytical procedures for payroll and agreed totals for the year per PCL's records to the City's accounting system without exception.
- We calculated the maximum administrative expenses allowed (5% of cumulative tax revenues, including related interest

Results:

- We noted administrative disbursements selected for testing were recorded in the proper period and supported by invoices and/or purchase orders.
- We noted expenses for services provided over \$5,000 that were selected for testing were supported by approved contracts.
- We noted consistency in documentation of the approval process for administrative expenses tested. We noted that these expenses were ordinary and necessary expenses.
- We determined that PCL's administrative expenses were below the maximum amount allowed.

d. Grants - Overview

Grants are approved by the Allocation Committee. Once approved, PCL obtains copies of the grantee agreement, including a budget with agreed-upon amounts for annual awards. PCL staff review and approve grantee requests for advances and reimbursements after comparing grantee requests with approved budgets. The grant manager approves the expenditure and the check request is sent to the City's accounting department for processing. The Office of the Auditor reviews payment requests, and prepares and mails the checks to grantees.

**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the Year Ended June 30, 2011**

2. PROCEDURES PERFORMED AND RESULTS OF COMPLIANCE TESTING, Continued

Tests of Compliance

We randomly selected 25 grants and performed the following procedures for each grant agreement:

- We compared the grant document to the request for investment (grant).
- We reviewed the signed grant contract, noting proper approval.
- We noted approval for the grant budget.
- We noted approval for the grant advances and reimbursements.
- We compared grant reimbursements to approved budgets.
- We noted whether grantee expenses for administration agreed to the grant agreement and approved budget.
- We examined support for grant disbursements maintained by PCL.
- We examined grantee files to determine if progress reports and other documents required to be received by PCL had been received.

Results:

We found no discrepancies in the documents we examined.

3. PROCEDURES PERFORMED AND RESULTS OF INTERNAL CONTROL TESTING

Internal Controls

We gained an understanding of internal controls, including those over recording grant payments, grantee reporting, recordkeeping over grants, approval of disbursements to grantees, administrative budgeting, and reimbursement of administrative expenses, grantee reporting, and reimbursement.

For expenditures selected for compliance testing, we also tested internal controls over compliance. No exceptions were noted. The current system for processing payments appears to provide adequate control to ensure that disbursements are authorized and allowable. Overall, we found grant files, accounting records, and supporting documentation complete and readily available for examination. Also, having PCL's payroll, administrative, and grant disbursements processed by other City Departments provides segregation of duties and controls that would otherwise be difficult to institute in a small organization.

**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the Year Ended June 30, 2011**

3. PROCEDURES PERFORMED AND RESULTS OF INTERNAL CONTROL TESTING, Continued

PCL has established internal controls based on all granting activity being processed and monitored by PCL staff. The current policies and procedures in place address the entire granting process from investment through monitoring. PCL staff have developed forms and worksheets to support the procedures and to reconcile grant activity on an ongoing basis. We noted that for the files examined, each grantee's activity appears to be up-to-date and in agreement with the approved investments and budgets.

We have the following recommendation for strengthening internal control:

Internal Invoicing

For internal invoicing, we noted that approvals are not explicitly documented on the budget to actual reporting when reviewed. We recommend documenting the approvals, similar to the control procedures over external invoicing.

Management has adopted our recommendation.

4. DOCUMENTS EXAMINED

The following documents were examined as part of the examination:

General:

- Ballot language for the Children's Levy
- Internal control memo prepared by PCL staff
- PCL Grant Accounting Procedures document
- City of Portland SAP Fund 216000 Budget to Actual report for the period ended June 30, 2011

Administrative - Tests of Compliance

Sample size: 25 expenditures

Documents examined:

- Disbursement log prepared by PCL staff
- Invoices/purchase orders/receipts
- Contracts, where applicable
- Internal PCL budget for the period ended June 30, 2011
- Time sheets for months of November 2010 and January 2011

**PORTLAND CHILDREN'S LEVY
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the Year Ended June 30, 2011**

4. DOCUMENTS EXAMINED, Continued

Grants - Tests of Compliance

Sample size: 25 grants

Documents examined for each grant selected:

- Request for investment/ Application
- Signed contract
- Approved budget
- Approved advances or reimbursements
- Quarterly progress reports
- Annual outcome reports, where applicable
- Submitted audited financial statements, where applicable