

**THE CHILDREN'S
INVESTMENT FUND**

Compliance Audit

**For the year ended
June 30, 2004**



MCDONALD JACOBS

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INDEPENDENT AUDITOR'S REPORT

To the Allocation Committee
The Children's Investment Fund
Portland, Oregon

We have audited the Children's Investment Fund (the CHIF) for compliance with laws and regulations outlined in the voter-passed Measure 26-33 passed in November 2002 for the Children's Initiative during the year ended June 30, 2004. Measure 26-33 requires that:

- Programs funded must be cost effective and have a proven record of success.
- The CHIF is subject to annual compliance audits.
- Administrative costs cannot exceed 5% of annual tax revenues.

Management is responsible for the Children's Investment Fund's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the Children's Investment Fund's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (SSAE No. 10) and, accordingly, included examining, on a test basis, evidence supporting management's compliance with laws and regulations outlined in the voter-passed Measure 26-33 for the Children's Initiative and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

In our opinion, the Children's Investment Fund complied, in all material respects with the aforementioned requirements for the year ended June 30, 2004.

McDonald Jacobs, P.C.

September 16, 2004

Strength in Numbers

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THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS AND
RECOMMENDATIONS
For the year ended June 30, 2004

1. OVERVIEW OF THE CHILDREN'S INVESTMENT FUND

In 2002, the City of Portland voters passed Measure 26-33, which created the Children's Investment Fund (the CHIF). The CHIF is funded through property tax assessments and provides approximately \$8.6 million a year for five years to support programs designed to help children arrive at school ready to learn, provide safe and constructive after-school alternatives for children, and prevent child abuse and neglect and family violence.

The key requirements of Measure 26-33 are as follows:

The CHIF funds can only be used for:

- **Child abuse prevention and intervention**, which addresses juvenile crime, school failure, drug and alcohol abuse and homeless youth.
- **Early childhood programs**, which make childcare more affordable and prepare children for success in school.
- **After-school and mentoring programs**, which promote academic achievement, reduce the number of juveniles victimized by crime and increase graduation rates.

Accountability measures include:

- Programs funded must be cost effective and have a proven record of success.
- The CHIF is subject to annual compliance audits.
- Administrative costs cannot exceed 5% of annual tax revenues.

2. PROCEDURES PERFORMED AND FINDINGS

We gained an understanding of the organizational philosophy, objectives and policies for operating the CHIF, as well as significant regulatory and accounting matters.

We reviewed governing and other key documents including the ballot language, intergovernmental agreements, requests for investment (grant), grant agreements, and external contracts.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS AND
RECOMMENDATIONS, Continued
For the year ended June 30, 2004**

2. PROCEDURES PERFORMED AND FINDINGS, Continued

Administrative expenses:

Overview

The CHIF's Director and Portland City Commissioner Dan Saltzman, Chair of the Allocation Committee for the CHIF, approve all invoices for administrative expenses. Once approved, administrative expenses are entered into the City's accounting system (IBIS). The City's accounting department issues disbursement checks for these expenses. On a monthly basis, the City's accounting department provides the CHIF staff with a Center Status Report (expense by category report).

Tests of compliance

We tested compliance, including whether administrative expenses were less than 5% of annual tax revenues and that administrative expenses were ordinary, necessary and approved.

Specifically:

- We examined support for administrative expenses maintained by the CHIF and compared these to reports provided by the City's accounting department.
- We noted that administrative disbursements were recorded in the proper period and supported by an invoice and/or a purchase order.
- After January 2004, we noted consistency in documentation of the approval process for administrative expenses. Prior to this, the approval process had not been established and inconsistencies were noted as to documented authorization. We did note that these expenses were ordinary and necessary expenses.
- We calculated the maximum administrative expenses allowed (5% of annual tax revenues) and determined that the CHIF's administrative expenses were below this amount.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS AND
RECOMMENDATIONS, Continued
For the year ended June 30, 2004**

2. PROCEDURES PERFORMED AND FINDINGS, Continued

Grants:

Overview

The CHIF and the Bureau of Housing and Community Development (BHCD) work together in administering grants. Once grants are approved by the Allocation Committee, the CHIF provides BHCD with the grantee agreement, including a budget with agreed-upon amounts for annual awards. The CHIF staff review and approve grantee requests for advances and reimbursements after comparing grantee requests with approved budgets. If grant requests are in order, the CHIF's Director sends the approved request to BHCD for processing grant payments.

Tests of compliance

We randomly selected 5 grants and reviewed each grant document in order to identify any issues or conflicts, including whether reimbursed expenses matched agreed-upon budgets and that grantees were not reimbursed for unallowable expenses.

Specifically, we 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 the CHIF and compared this to reports provided by BHCD.

We found no discrepancies in the documents we examined.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS AND
RECOMMENDATIONS, Continued
For the year ended June 30, 2004**

3. RECOMMENDATIONS

Internal Controls

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

The processes for authorizing and processing grant and administrative disbursements have evolved since the inception of the CHIF. 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 the CHIF'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.

We do have some recommendations:

Establish Written Accounting Policies

We noted that the CHIF does not have written fiscal policies. We recommend that the CHIF formalize its accounting policies and procedures and distribute them to all staff members. While we note that all of the CHIF staff members are familiar with grant and accounting procedures, uniform handling of like financial transactions is only possible when all of the accounting policies established by the CHIF are clearly communicated to all appropriate employees. Once developed, the manual should be reviewed and updated periodically. Documented policies and procedures will also help ensure that key staff functions can be covered by qualified individuals during vacations and other employee absences.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS AND
RECOMMENDATIONS, Continued
For the year ended June 30, 2004**

3. RECOMMENDATIONS, Continued

Establish Understanding with Appropriate Agencies

The CHIF and Bureau of Housing and Community Development (BHCD) have an interagency agreement for 2003-2004, whereby BHCD provides personnel and related resources to the CHIF. Specifically, the BHCD's duties and responsibilities are to provide technical assistance in program development, grant agreement and contract development and contract processing and financial management.

While interviewing staff of BHCD, we were informed that in some cases, BHCD staff directly contacted grantees regarding their invoices and requests for payment without notifying the CHIF staff of these discussions. We recommend that the CHIF and BHCD modify their agreement to address which agency should assume this responsibility and how communications between the agencies will be handled. This will minimize the confusion that may arise when there are multiple agencies involved.

Tracking Disbursements

All administrative disbursements for the CHIF are handled by the City of Portland's accounting department and the City's accounting department provides the CHIF with a monthly statement of expenses. The CHIF does not maintain its own accounting of expenses. We recommend that the CHIF account for administrative expenses in order to reconcile to the City's reports. Due to timing differences in when expenses are reported by the City, it's important for the CHIF to compare and reconcile its own records to the City's. Differences in expenses on the two reports should be investigated and resolved. By tracking the administrative expenses independently, the CHIF is also in a better position to keep track of year-to-date administrative expenses for purposes of complying with the 5% maximum for administrative expenses.

We also recommend that the CHIF maintain an accounting of all grant disbursements and reconcile these to BHCD and City reports.