

PORTLAND CHILDREN'S LEVY

Compliance Examination

**For the Year Ended
June 30, 2014**



INDEPENDENT ACCOUNTANT'S REPORT

To the Allocation Committee
Portland Children's Levy

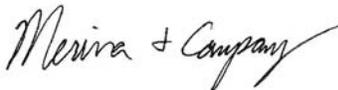
We have examined the Portland Children's Levy's compliance with laws and regulations outlined in Measure 26-94, the five-year levy renewed by voters in November 2008, for the year ended June 30, 2014. Management is responsible for Portland Children's Levy's compliance with those requirements. Our responsibility 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 the Portland Children's Levy's compliance with those requirements 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 the Portland Children's Levy's compliance with specified requirements.

In our opinion the Portland Children's Levy complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2014.

This report is intended solely for the information and use of the Portland Children's Levy and the Allocation Committee and is not intended to be and should not be used by anyone other than these specified parties.

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



Merina & Company, LLP
West Linn, Oregon
March 31, 2015

Portland Children's Levy
Summary of Procedures Performed, Findings, and Recommendations
For the Year ended June 30, 2014

EXECUTIVE SUMMARY

Overview

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

The Portland Children's Levy has contracted with Merina & Company, LLP (MCO) to examine the Levy's compliance with Measure 26-94 and to perform the following procedures:

1. Gain an understanding of the organizational philosophy, objectives and policies for operating the Fund, as well as significant regulatory and accounting matters.
2. Review, and test for compliance with, the governing and key documents including the ballot language, intergovernmental agreements, requests for investments (grants), grant agreements, and external contracts.
3. Review and assess the adequacy of internal controls including those over recording grant payments, grantee reporting, record-keeping over grants, approval of the disbursements to grantees, administrative budgeting, and reimbursement of administrative expenses, grantee reporting and reimbursement.
4. Audit a sample of selected grants, reviewing each grant document and indentifying any issues or conflicts including whether reimbursed expenses matched agreed upon budgets and are for allowable costs.

Compliance Requirements

Merina & Company obtained and reviewed the ballot language in Measure 26-94 and identified following requirements as key:

1. Funds may only be expended for the following areas:
 - a. **Early Childhood programs:** these programs offer early childhood education and intervention, parenting education and home visiting so Portland's at-risk children reach kindergarten healthy and prepared to succeed.
 - b. **Child abuse prevention and intervention programs:** these programs provide services to reach children affected by neglect, family violence, parental drug and alcohol use and homelessness. They also support stressed families most at-risk for abuse and neglect by providing intensive case management, therapy, counseling, respite care and parent education.

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- c. **Foster care programs:** these programs provide intensive academic support education advocacy for youth in foster care, work to help foster children develop a plan for the future, and provide services to help youth establish permanent connections.
 - d. **After school and mentoring programs:** these programs provide at-risk children with safe, constructive activities that promote academic achievement and provide positive and consistent adult and peer role models.
2. Accountability measures include:
- a. Costs spent administering the Levy cannot exceed 5% of cumulative tax revenues, including interest.
 - b. The Levy is subject to an annual compliance audit (examination).
 - c. Programs funded must be cost effective and have a proven record of success (**not tested as part of this examination**).
 - d. The Levy is subject to oversight by a citizen committee of at least five members (**not tested as part of this examination**).

Methodology

Based on the contract requirements and the compliance requirements as outlined in measure 26-94, Merina & Company has organized their compliance audit (examination) into three key sections:

- Assessing the adequacy of the Levy's internal controls.
- Testing administrative expenses.
- Testing the Levy's administration of grants and the grantee's compliance with contract requirements.

ASSESSING THE ADEQUACY OF INTERNAL CONTROLS

Objective

To review and test the adequacy of the Levy's internal controls over reimbursement of administrative expenses and administrative budgeting, as well as over recording and approving disbursements to grantees, and grantee monitoring.

Overview – Administrative

The Levy has three main types of administrative expenses; (1) External costs, which consists of all payments made to vendors outside of the City of Portland, (2) Internal costs, which include General Fund overhead allocation (amount is fixed annually), Bureau Technology Services (annual fixed amount plus billable expenses), Communications, and Printing and Distribution, and (3) Payroll expenses.

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External costs are typically incurred in one of three ways: a contract, an expense reimbursement, or a P-card transaction. All expenses that exceed \$5,000 must have a contract that has been approved by Portland City Commissioner Dan Saltzman, Chair of the Levy's Allocation Committee. All other administrative expenses are reviewed by the Levy's Fiscal and Administrative Specialist and approved by the Levy's Director. Once approved, these administrative expenses are entered into the City's accounting System (SAP), and the City's accounting department issues disbursement checks. All checks are then reviewed and mailed by the Office of the Auditor.

Internal costs are charged by specific internal service agency of the City of Portland, and are billed through SAP.

Salaries are pre-determined by the City of Portland for each of the Levy's employees. Employees have a maximum amount of hours they are eligible to work each pay period, and no overtime is granted. Time cards are reviewed and approved each pay period by the Levy's Director. Paychecks are processed through the City's accounting departments.

Overview – Grants

The Levy has a five member Allocation Committee that approves all grants and determines funding amounts. Once funding amounts are established, the Levy obtains a grant contract which must be approved by Commission Saltzman, the City Attorney, and the Grantee. Grant Managers will then work with the individual grantee to establish a budget, not to exceed the amount awarded by the committee. The Levy's staff review reimbursement requests quarterly, and compare them to the approved budget. In order for a request to be paid, it must be approved by the Grant Manager, and by the Fiscal and Administrative Specialist. The City's accounting department is responsible for processing the payment, and the Office of the Auditor reviews, prepares, and mails the checks to the grantees.

Results

- The internal control procedures appear to be adequate, and provides a sound structure for processing administrative expenses and ensuring that disbursements are authorized and allowable.
- Having the Levy'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 an organization with limited staff.
- The application of internal controls over administrative expenses appears to be operating effectively.
- We noted that internal controls over approving grantee reimbursements appear to be effective.

ADMINISTRATIVE EXPENSES

Objective

To review administrative expenses to determine that they were less than 5% of cumulative tax revenues (including interest) and that administrative expense were ordinary, necessary, and approved.

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Methodology

We selected a random sample of 15 external administrative expenses, and 15 internal administrative to test that they were:

- Authorized by appropriate personnel
- Recorded in the proper period and for the correct amount
- In agreement to supporting documentation
- Services for over \$5,000 were approved by contract

We haphazardly selected a sample of 10 payroll transactions to determine that:

- Time sheets were approved
- Hours paid agree to time sheet hours
- Total salary agrees to the amount approved by the City of Portland

We also calculated the maximum amount of administrative expenses allowed (5% of cumulative tax revenues including interest).

Results

- We noted that disbursements selected for testing were authorized by appropriate personnel.
- Disbursements appeared to be recorded in the proper period and for the correct amount.
- Supporting documentation appeared adequate and agreed to payment.
- Contracts were obtained for services that exceed \$5,000.
- We noted that total personnel expenses materially agreed to the amount approved by the City of Portland.
- We noted that of the time cards tested, hours paid agreed to the hours reported.
- We noted of the time card had appropriate approval.
- We determined that the Levy's cumulative administrative expenses were \$5,619,287 which is \$144,865 below the maximum amount allowed.

Documents Examined

- Disbursement log prepared by Levy staff for internal and external expenses
- Invoices/purchase orders/receipts
- Contracts, where applicable
- SAP fund 21600 Budget to Actual report as of June 30, 2014
- Time sheets for three employees
- City of Portland approved salary guide
- City of Portland CAFR

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ADMINISTRATION OF GRANTS & GRANTEE MONITORING

Objective

To review key documents such as the ballot language, requests for investment, and grant agreements and determine compliance with these documents. Also, to test the Levy's compliance with grant monitoring requirements and the adequacy of internal controls.

Methodology

We selected a total sample of 37 grantees, the two largest and 35 others randomly, and performed the following procedures:

- We compared the request for investment to the approved grant document.
- We reviewed the signed grant contract for proper approval.
- We compared the grant budgets to the approved award amount to ensure agreement.
- We verified grant reimbursement requests had proper approval and were for allowable costs.
- We compared grant reimbursements to the approved budget.
- We verified that grantee administrative costs reimbursed by the Levy did not exceed the budgeted amount.
- We reviewed quarterly reports to verify they were less than 25% of the total grant (as outlined in the grant contract).
- We examined grantee files to determine reports and other required documents were submitted, and submitted timely.

Results

- The grants tested all appear to be for a program area allowable based on the ballot language.
- We noted that all grants tested appeared to have contracts signed by the appropriate personnel.
- The approved budgets do not appear to exceed the approved award, for the grants tested.
- The reimbursement requests appear to be properly approved.
- It appeared that of the grantees tested, no grantee exceeded their approved budget.
- It appeared that advance requests did not exceed 25% of the approved budget.
- It appeared that all required reports were submitted to the Levy.
- We noted during testing that while the Levy is performing detailed financial reviews of all grantees, they are in the practice of only requiring financial audits or reviews to be submitted upon Grant Manager request. Based on the grant contract, "two copies of all required financial audits or reviews shall be submitted to the Grant Manager within thirty days of audit completion OR upon request by the Grant Manager." The contract language implies that financial audits or review should be submitted.

Recommendations

- MCO recommends that the Levy enforce the provision in the grant contract that requires grantees to submit financial audits or reviews in a timely manner.

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Documents Examined

- Requests for investment
- Allocation committee resolution approving award
- Signed contract
- Approved budget
- Reimbursement and advance requests
- Annual outcome report
- Demographic report
- Participant list
- Submitted audit/review
- Levy's tracking form