

**THE CHILDREN'S  
INVESTMENT FUND**

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**Compliance Audit**

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**For the year ended  
June 30, 2005**



MCDONALD JACOBS

## INDEPENDENT ACCOUNTANT'S REPORT

*Jake Jacobs, CPA*

*Susan J. Marks, CPA*

*Dennis C. Johnson, CPA*

*Mark A. Cliff, CPA*

*James R. McDonald, CPA  
of counsel*

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

We have examined the Children's Investment Fund's (the CHIF) compliance with laws and regulations outlined in the voter-passed Measure 26-33 passed in November 2002 for the Children's Initiative for the year ended June 30, 2005. 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 cumulative 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 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. Our examination does not provide a legal determination on the Children's Investment Fund's compliance with specified requirements.

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, 2005.

*McDonald Jacobs, P.C.*

September 23, 2005

*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, 2005**

**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, to provide safe and constructive after-school alternatives for children, and to 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 cumulative 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 (grants), grant agreements, and external contracts.

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SUMMARY OF PROCEDURES PERFORMED, FINDINGS  
AND RECOMMENDATIONS, Continued  
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**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 cumulative 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.
- We noted consistency in documentation of the approval process for administrative expenses. We noted that these expenses were ordinary and necessary expenses.
- We calculated the maximum administrative expenses allowed (5% of cumulative tax revenues) and determined that the CHIF's administrative expenses were below this amount.

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SUMMARY OF PROCEDURES PERFORMED, FINDINGS  
AND RECOMMENDATIONS, Continued  
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**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 12 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 examined the files to determine if progress reports and other documents required to be received by the CHIF had been received.

We found no discrepancies in the documents we examined.

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SUMMARY OF PROCEDURES PERFORMED, FINDINGS  
AND RECOMMENDATIONS, Continued  
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**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.

Subsequent to the year of examination, the CHIF's procedures for processing grants changed and BHCD is no longer involved in the granting process. The CHIF has established internal controls based on all granting activity being processed and monitored by the CHIF staff. The current policies and procedures in place address the entire granting process from investment through monitoring. The CHIF staff have developed forms 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.

To add to the controls already established by the CHIF, we offer the following recommendation:

Tracking of Documentation Requirements of Grantees

During our review of the grant requirements, we noted that there are numerous ongoing requirements and reports that grantees must provide to the CHIF in order to receive funding. As a means of simplifying the tracking and monitoring of grantees responses, we recommend adding a checklist or summary sheet of data received and items pending. This checklist should also indicate if the documents, such as quarterly progress reports and outcome reports, are stored electronically or in the hard file. This would allow any staff

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member who is examining a file to efficiently ascertain if the grantees have met their requirements before receiving additional funding.

**4. STATUS OF PRIOR YEAR RECOMMENDATIONS**

Establish Written Accounting Policies

As a part of our report for the year ended June 30, 2004 we recommended that the CHIF formalize its accounting policies and procedures and distribute them to all staff members.

We are pleased to report that the CHIF has formalized and documented accounting policies and procedures. We recommend that the manual be reviewed and updated periodically.

Establish Understanding with Appropriate Agencies

We noted last year while interviewing staff of BHCD, 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 recommended 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 to minimize the confusion that may arise when there are multiple agencies involved.

After June 30, 2005, the CHIF is no longer utilizing the services of BHCD and there is no agreement in place for 2005-2006.

Tracking Disbursements

In the year ended June 30, 2004 the CHIF did not maintain its own accounting of expenses. We recommended that the CHIF account for administrative expenses in order to reconcile to the City's reports.

We are pleased to report that our recommendation has been adopted. The CHIF staff should continue to monitor and reconcile administrative expenses with amounts reported by the City.