

**THE CHILDREN'S
INVESTMENT FUND**

Compliance Audit

**For the year ended
June 30, 2006**



MCDONALD JACOBS

INDEPENDENT ACCOUNTANT'S REPORT

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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, 2006. 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, 2006.

McDonald Jacobs, P.C.

November 3, 2006

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, 2006**

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.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the year ended June 30, 2006**

2. PROCEDURES PERFORMED AND FINDINGS, Continued

Administrative expenses:

Overview

An administrative staff initially reviews and approves invoices for administrative expenses. The CHIF's Director then reviews and approves the invoices for payment. Contracts 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 CHIF. 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 selected 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.

**THE CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the year ended June 30, 2006**

2. PROCEDURES PERFORMED AND FINDINGS, Continued

Grants:

Overview

Grants are approved by the Allocation Committee. Once approved, the CHIF obtains copies of 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. The grant manager approves the expenditure and the check request is sent for processing.

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.
- 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.

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 CHILDREN'S INVESTMENT FUND
SUMMARY OF PROCEDURES PERFORMED, FINDINGS
AND RECOMMENDATIONS, Continued
For the year ended June 30, 2006**

3. RECOMMENDATIONS, Continued

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.

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.

We are pleased to report that we have no new recommendations.

4. STATUS OF PRIOR YEAR RECOMMENDATION

Tracking of Documentation Requirements of Grantees

As a part of our report for the year ended June 30, 2005, we recommended adding a checklist or summary sheet to the grantee files identifying data received and items pending. This would allow any staff member who is examining a file to efficiently ascertain if the grantees have met their requirements before receiving additional funding.

Management of the CHIF has established procedures for processing reimbursements and renewals that ensures funds are not distributed to grantees prior to meeting all reporting requirements. The use of an additional checklist is not considered necessary.