

**THE CHILDREN'S
INVESTMENT FUND**

Compliance Audit

**For the year ended
June 30, 2008**



McDONALD JACOBS

INDEPENDENT ACCOUNTANT'S REPORT

Jake Jacobs, CPA

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

Susan J. Marks, CPA

Dennis C. Johnson, CPA

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, 2008.

Mark A. Clift, CPA

Karin S. Wandtke, CPA

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

Sang Ahn, CPA

*Jill Oswald
Principal*

*James R. McDonald, CPA
of counsel*

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 Children's Investment Fund'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 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, 2008.

McDonald Jacobs, P.C.

March 4, 2009

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, 2008**

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 \$13 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 (not tested as part of this compliance audit).
- The CHIF is subject to annual compliance audits.
- Administrative costs cannot exceed 5% of cumulative tax revenues.

2. PROCEDURES PERFORMED AND FINDINGS

- a. We gained an understanding of the organizational philosophy, objectives and policies for operating the CHIF, as well as significant regulatory and accounting matters.
- b. 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, 2008**

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 incurred by the CHIF and compared these to reports provided by the City's accounting department.
- We performed analytical procedures for payroll and related expenses and agreed totals for the year per CHIF's records to the City's report without exception.
- We noted that administrative disbursements were recorded in the proper period and supported by an invoice and/or a purchase order.
- We noted that services provided over \$5,000 were supported by approved contracts.
- 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, 2008**

2. PROCEDURES PERFORMED AND FINDINGS, Continued

c. 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.

d. Tests of compliance

We randomly selected 15 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 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.

**THE CHILDREN'S INVESTMENT FUND
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AND RECOMMENDATIONS, Continued
For the year ended June 30, 2008**

3. CONCLUSIONS AND RECOMMENDATIONS

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.

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. DOCUMENTS AUDITED

The following documents were examined as part of the compliance audit:

General:

- Ballot Language for Children's Initiative
- Internal Control memo prepared by CHIF staff
- CHIF Grant Accounting Procedures document
- City of Portland Expenditure Report for CHIF Administration for the period ended 6/30/08
- City of Portland Expenditure Report for CHIF -All expenditures for the period ended 6/30/08
- City of Portland Revenue Status Report for the period ended 6/30/08

**THE CHILDREN'S INVESTMENT FUND
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4. DOCUMENTS AUDITED, Continued

Administrative – tests of compliance

Sample size 22 disbursements

Sample tested: \$126,617; 71% of total administrative expenses (other than payroll)

Documents examined:

- Disbursement log prepared by CHIF staff
- Original invoices/purchase orders
- Contracts, where applicable

Payroll testing:

- Year to date disbursements summarized by CHIF employee from City of Portland, generated from the City Analysis & Reporting System
- Time sheets for month of April 2008

Grants – test of compliance

Sample size 15 grants

Disbursements tested: \$2,327,353; 23% of total grant disbursements.

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