



School Board of Brevard County, Florida
Half-Cent Sales Surtax
Internal Audit Report
Fiscal Year 2016-17

November 2, 2017

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TRANSMITTAL LETTER

November 2, 2017

The Audit Committee of the
School Board of Brevard County, Florida
2700 Judge Fran Jamieson Way
Viera, Florida 32940-6699

Pursuant to the School Board of Brevard County, Florida ("District") approved audit plan for fiscal year ("FY") 2016-17, we hereby present our internal audit of the Half-Cent Sales Surtax. We will be presenting this report at the next scheduled Audit Committee meeting on November 17, 2017 and to the Independent Citizen Oversight Committee on December 13, 2017. Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations noted in our internal audit as well as their respective risk ratings.
Overview	This provides an overview of the Half-Cent Sales Surtax function.
Objectives, Approach and Results	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach and the results of our audit procedures.
Appendices	This section includes information on the Facilities Needs Assessment, State Requirements and the Independent Citizens Oversight Committee.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with the internal audit of the Half-Cent Sales Surtax.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

EXECUTIVE SUMMARY

Background

On November 4, 2014 the citizens of Brevard County passed a Half-Cent Sales Surtax to address critical school infrastructure needs. The surtax is effective for a period of six (6) years beginning on January 1, 2015, continuing through December 31, 2020, and was originally projected to generate \$197.5 million to fund capital projects involving three groups: Facility Renewal, Educational Technology, and District School Security.

The District has 82 schools and 4,145 classrooms which serve approximately 67,000 students, with an average District facility age of over 40 years. Without adequate capital revenue, only the highest priority capital needs, typically failures, were addressed before the Half-Cent Sales Surtax was passed by the citizens of Brevard County.

The District created a comprehensive Facilities Condition Assessment and Planned Use for revenue generated. Funding is based on the highest priority components in each of the three groups to address the most critical items. Prioritization was further refined by identifying the critical infrastructure systems where failure to renew either jeopardized mission delivery or significantly increased capital costs for future repair. There are seventeen (17) Facility Renewal, three (3) Educational Technology, and (2) two School Security categories funded.

The Independent Citizens Oversight Committee (ICOC) provides general oversight to the use of funds collected for school facilities. The ICOC was independently developed by volunteer citizens not affiliated with Brevard Public Schools. Members were selected based on their relevant expertise and reputations within Brevard County and they consist of a multitude of different backgrounds which include business, construction, design, education, financial, legal, and technology.

As of June 30, 2017 actual collections since program inception totaled \$98,271,743 and expenditures were \$58,692,583.

Objective, Approach and Results

The primary purpose of this audit of the Half-Cent Sales Surtax function is to test the appropriateness, existence, accuracy and valuation of the financial reporting from District Management to the ICOC, the School Board of Brevard County (“Board”), and the general public. The audit of the Half Cent Sales Surtax is the fourth in a series of audit reports that will be issued to the Board, Audit Committee, and ICOC. At the request of the Audit Committee, we will perform this audit and provide a written report of the findings twice a year. These audit reports will be issued throughout the life of the sales surtax.

The audit period for this report is December 1, 2016 to June 30, 2017. For each testing period, RSM will perform select inquiry, review, and testing procedures as they relate to the following processes:

- Revenues
- Expenditures
- Procurement

Fieldwork was performed, and a draft report was reviewed with management and senior leadership in October 2017. At the conclusion of our audit, we summarized our findings into a written report.

We have assigned ratings of ✓, X, or N/A to each area within our detailed testing scope. We noted no exceptions in our detailed testing.

Summary of Results

(See Objectives, Approach, and Results section for expanded results)

Audit Period of December 1, 2016 – June 30, 2017

Revenues	Expenditures	Procurement
✓	✓	✓

We would like to thank all District team members who assisted us throughout this review.

OVERVIEW

On November 4, 2014 the citizens of Brevard County passed a Half-Cent Sales Surtax to address critical school infrastructure needs. The surtax is effective for a period of six (6) years beginning on January 1, 2015, continuing through December 31, 2020, and was originally projected to generate \$197.5 million to fund capital projects involving Facility Renewal, Educational Technology, and District School Security.

The School Board of Brevard County, and all school districts in Florida, have faced a drastic decline of funding in recent years related to capital expenditures and fixed capital costs associated with the construction, renovation, and renewal of District sites, as well as school security access control and funding for technology needs, including infrastructure, refreshment, acquisition, and implementation of hardware and software. The District has 82 schools and 4,145 classrooms which serve approximately 67,000 students, with an average District facility age of over 40 years. Without adequate capital revenue, only the highest priority capital needs, typically failures, were addressed before the Half-Cent Sales Surtax was passed by the citizens of Brevard County.

This audit of the Half Cent Sales Surtax is the fourth in a series of audit reports that will be issued to the School Board, Audit Committee, and Independent Citizens Oversight Committee (“ICOC”). The internal audit objective is to test the financial data reported by District Management to the ICOC. They will be issued throughout the six-year life of the sales surtax. These projects will also follow District procedures for closeout audits. For all the District’s projects with a total cost of \$1million or more, an outside auditing firm is engaged to perform a construction closeout audit. A closeout audit consists of inspecting the books and records of a construction contractor, typically for the purpose of testing for contractor compliance with the terms of a cost-plus-fee of construction agreement. These procedures include obtaining source documents, check copies, invoices and other appropriate audit evidence directly from the contractor, in an effort to validate that billings to the District were for costs/expenses incurred and paid by the contractor in compliance with the terms of the agreement.

Funding Snapshot

Below are revenue and expenditure tables to provide an understanding of the funds received and the use of these funds as of June 30, 2017.

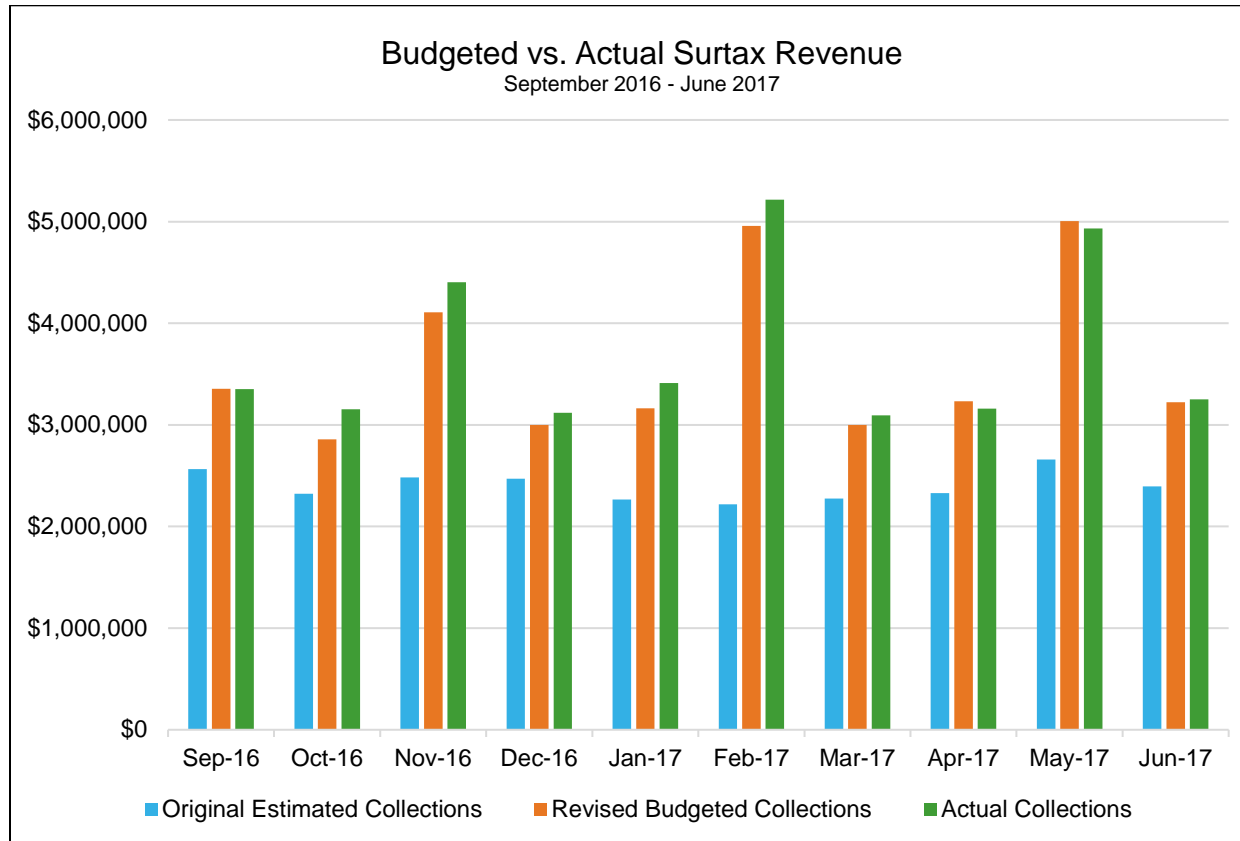
Actual collections since program inception totaled \$98,271,743 and expenditures were \$58,692,583 as of June 30, 2017. There is a time lag between receipt of revenue and expenditure of funds for several reasons:

- The Half-Cent Surtax program is on a pay-as-you-go basis. Encumbrances and expenditures cannot outpace revenues.
- Generally, project planning occurs between September and March. Contracting (encumbrances) for the summer projects occurs between February and May. Construction expenditures peak between August and October each year.
- Project development time can be lengthy depending on the scope and complexity of the project. Some projects will be constructed over two summers. For some projects, the scope of work exceeds the time available in one summer.

Fabrication and delivery time for major components such as chillers sometimes impacts the project schedule. The District has stated that the pace of expenditures grew in 2017 in comparison with 2016, as a greater number of projects were completed, including School Security and Educational Technology projects.

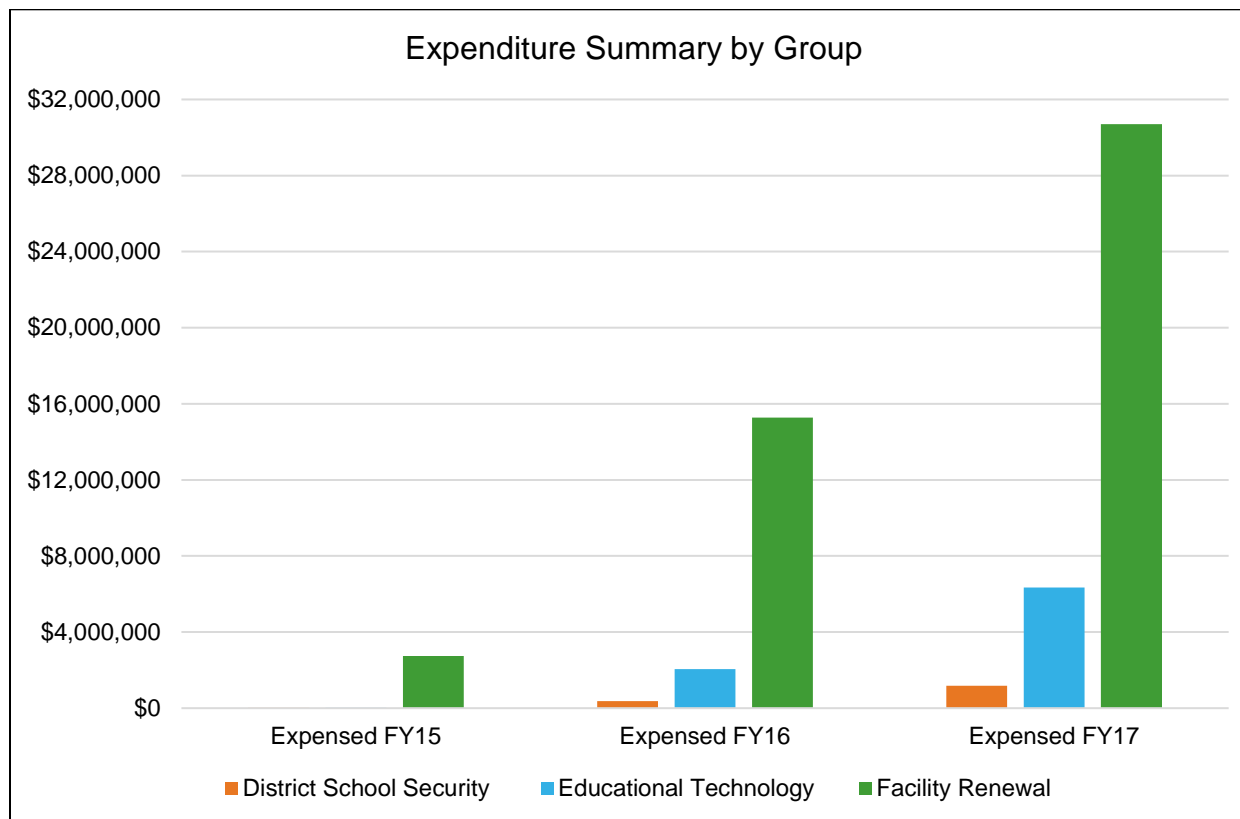
OVERVIEW - CONTINUED

The District, upon recommendation from the Department of Revenue, modeled their estimate of incoming surtax revenues off of a neighboring local government. The District has noted that the original estimated collections were conservative in relation to actual collections. After monitoring the sales tax collection trends for more than a year, the District created a revised budgeted estimate in September 2016 to allow the District to more accurately anticipate revenues. The original estimated collections, District revised budgeted estimate, and actual collections are illustrated below.



OVERVIEW - CONTINUED

The following chart represents the expenses incurred by group for fiscal years ending June 30 for 2015, 2016, and 2017.



OBJECTIVES, APPROACH AND RESULTS

Objective

The primary purpose of the audit of the Half-Cent Sales Surtax function is to test the appropriateness, existence, accuracy and valuation of the financial reporting from District Management to the ICOC, the School Board, and the general public. At the request of the Audit Committee, we will perform this audit and provide a written report of the findings twice a year.

Objectives of this engagement include the following:

- To audit the accuracy, existence, appropriateness and valuation for a sample of the revenues and expenditures of the Half Cent Sales Surtax from December 1, 2016 to June 30, 2017 as reported in the August 16, 2017 meeting of the ICOC;
- To gain an understanding of and test the labor allocation and pay application review processes performed by the District when recording expenses to a Half Cent Surtax project;
- To vouch the expenses listed on the pay applications to supporting documentation;
- To gain an understanding of, and to review the results of, the District's process to effect equitable distribution of contracts among qualified firms in accordance with Florida Statute 287.055(4)(b);
- To determine that the role of the ICOC is functioning as an independent monitoring and oversight function, and in accordance with the ICOC Charter; and
- To make any recommendations or process improvement suggestions noted during our procedures.

Approach

Our audit approach consisted of the following phases:

Understanding and Documentation of the Process

We held an entrance conference with those members of District senior management who were involved in the execution and have an understanding of the Half-Cent Sales Surtax function to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We reviewed the ICOC committee meeting minutes held on August 16, 2017 in order to obtain a greater understanding of their involvement with the Half-Cent Sales Surtax. We had a meeting with District personnel who are involved with the day to day Half-Cent Sales Surtax process and discussed our audit plan and provided the initial request list.

Testing and Reporting

This audit of the Half Cent Sales Surtax is the third in a series of audit reports that will be issued to the School Board, Audit Committee, and Independent Citizens Oversight Committee (ICOC). These audit reports will be issued throughout the life of the sales surtax. For each testing period, RSM will perform select inquiry, review, and testing procedures as they relate to the following processes:

- Revenues
- Expenditures
- Procurement

OBJECTIVES, APPROACH AND RESULTS - CONTINUED

Approach - Continued

Our testing is performed as construction projects are in progress so as to provide the District with real-time audit results that can be addressed by management quickly, if applicable. There are inherent limitations when performing auditing procedures on construction projects midway through completion, as many times the project contingencies and any overruns are calculated and applied at the end of a project and therefore will not be applicable until near completion. We will continue to monitor and assess risk related to the Half Cent Sales Surtax program, and will continue to discuss our internal audit objectives and scope with District leadership, the Audit Committee and School Board as appropriate.

We discussed results of our audit with appropriate members of management and conducted an exit conference with the Superintendent, Assistant Superintendent of Facilities, Director of Planning and Project Management, Chief Operating Officer and Chief Financial Officer. We will report to the Audit Committee at the November 17, 2017 meeting, and to the Independent Citizen's Oversight Committee in their December 13, 2017 meeting.

Results

We concluded our procedures and have summarized the results herein. There were no exceptions noted in our detailed testing of Revenue, Expenditures, or Procurement.

OBJECTIVES, APPROACH AND RESULTS - CONTINUED

Revenue

Revenue	Period Audited			
	November 30, 2015	June 30, 2016	November 30, 2016	June 30, 2017
1. Verify appropriate allocation	✓	✓	✓	✓
2. Mathematical accuracy/Valuation	✓	✓	✓	✓
3. Confirm existence and occurrence	✓	✓	✓	✓
4. Confirm proper period recognition	✓	✓	✓	✓

The District reported \$26,181,313 in revenue to the ICOC for the period of December 2016 through June 2017. We tested a sample of the collections as reported in the ICOC meeting agenda packet. Our procedures included the following:

- 1) Verify that the collections received were allocated among the 4 groups (School Security, Educational Technology, Facility Renewal, and Contingency) in accordance with School Board Policy 6350.02.
- 2) Recalculate the collections report and related supporting documentation for mathematical accuracy.
- 3) Trace items on the ICOC agenda packet report to the general ledger and to the bank statements.
- 4) Confirm the revenues were recognized and reported to the ICOC in the proper period.

OBJECTIVES, APPROACH AND RESULTS - CONTINUED

Expenditures

Expenditures	Period Audited			
	November 30, 2015	June 30, 2016	November 30, 2016	June 30, 2017
1. Mathematical accuracy/Valuation	✓	✓	✓	✓
2. Confirm existence and occurrence	✓	✓	✓	✓
3. Confirm proper period recognition	✓	✓	✓	✓
4. Confirm appropriateness and allowability	✓	✓	✓**	✓
5. Recalculate internal labor allocation	✓	✓	✓	✓

The District reported \$26,136,114 in expenditures to the ICOC for the period of December 2016 through June 2017. We tested a sample of the expenditures as reported in the ICOC meeting agenda packet. Our procedures included the following:

- 1) Recalculate the expenditure supporting documentation for mathematical accuracy.
- 2) Confirm that the expenditure existed and occurred by vouching the expenditure to supporting documentation.
- 3) Confirm that the expenditures were recognized and reported to the ICOC in the proper period.
- 4) Review the nature of the expenditure and determine if the expenditure is reported appropriately and allowable per the Florida Statutes and project scope requirements.
- 5) Recalculate allocation of internal labor in accordance with District procedure.

** In accordance with Florida Statute, School Board Policy and District procedures, work is distributed to vendors in several ways. The District tracks the awards for 10 categories, or pools, of continuing contactors which have been prequalified through a formal Request for Qualification ("RFQ") process. Among the categories of continuing contactors are Construction Manager firms, Design-Build Service firms, Architectural/Engineering firms and various trade contractors. Awarded work is monitored for equitable distribution at the District-wide level and does not segregate between Half Cent Surtax funded awards and non-Surtax awards. As of our fieldwork for the current round of testing, the District had recently issued new Request for Proposals ("RFP") for Design-Build continuing contracts and Architectural continuing contracts to refresh the pool of available vendors. There were eight Design-Build contracts and six Architectural services contracts awarded, providing multiple options for the District. We will continue, on an ongoing basis, to monitor the District's award of work under continuing contracts for equitable distribution.

OBJECTIVES, APPROACH AND RESULTS - CONTINUED

Procurement

Procurement	Period Audited			
	November 30, 2015	June 30, 2016	November 30, 2016	June 30, 2017
1. Proper competitive solicitation	✓	N/A	✓	✓
2. Verify proper advertisement	✓	N/A	✓	✓
3. Verify short list	✓	N/A	✓	✓
4. Verify vendor packages are received/stamped by due date	✗	N/A	✓	✓
5. Verify negotiations	✓	N/A	✓	✓
6. Scoresheets	✓	N/A	✓	✓
7. Executed contract	✓	N/A	✓	✓

We obtained a listing of all surtax projects and their various stages and methods of procurement. Of the currently active contracts utilized on surtax projects, we selected a sample of RFP packages for testing compliance with applicable Florida Statutes.

Our testing procedures were based upon the requirements of Florida Statute 287 and Florida Statute 255, and include the following as applicable:

- 1) Verify that competitive solicitations were requested from 3 or more sources for contracts over the threshold required by Statute.
- 2) Verify the RFP announcement contains a statement describing the commodities or services sought, relative importance of price and other evaluation criteria, and a statement on if the agency is contemplating renewal. Verify that the RFP/RFQ was published in a manner as required by the Statutes, which is determined by type of solicitation.
- 3) Verify "short list" of firms contains at least 3 contractors
- 4) Verify vendor packages were received by the published due date.
- 5) Verify documentation of proper negotiations as per Statute.
- 6) Recalculate scoresheets for mathematical accuracy.
- 7) Verify final executed contract is maintained on file.

APPENDIX

Facilities Need Assessment

In accordance with the requirements set forth in the Florida Statutes noted above, the District began planning for the 2014 Half-Cent Sales Surtax referendum. They made a commitment to the community to create a comprehensive Facilities Condition Assessment and Planned Use for revenue generated. Two teams of Facilities Services employees, in collaboration with various school representatives, performed an assessment of the District's facilities from March 2014 through May 2014. Systems were rated on a condition code scale of 1-5, with a Condition Code 1 indicating an extremely worn and damaged status with replacement in two years and a Condition Code 5 indicating a new or like-new status with replacement in eight to ten years. Generalized construction costs were estimated using historical data and input from the District's design and construction vendors.

The Facility Assessment focused on critical systems and building/site components on each school campus. The three groups of this assessment were Facility Renewal, School Security, and Educational Technology. Within these groups are 33 Facility Renewal, 3 School Security, and 4 Educational Technology categories. The categories *not* included in the Facility Assessment were as follows: additional classroom space, new facility requirements for academic programs, furniture and equipment renewal, food service equipment renewal, new playground, new middle school gym air conditioning, new physical education pavilions, equity projects, and landscaping.

The following is the original projected amounts needed and funded based on the District's facility assessment completed prior to the passing of the Half-Cent Sales Surtax. The District, upon recommendation from the Department of Revenue, modeled their estimate of incoming surtax revenues off of a neighboring local government. As a result of the estimated proceeds during its six-year life span, \$197,485,384, or 26%, of the below identified needs will be addressed.

Group	Needed	Funded
Facility Renewal	\$721,750,379	\$156,969,949
Educational Technology	\$27,193,246	\$25,364,827
School Security	\$8,505,377	\$5,746,542
Contingency*		\$9,404,066
Total	\$757,449,002	\$197,485,384

*The contingency was established to fund unexpected failures or where unfunded Condition Code 1 or 2 elements become critical safety factors or negatively impact the education mission

APPENDIX – CONTINUED

Facilities Need Assessment - CONTINUED

As a result, in the District's 2014 Facilities Needs Assessment, only partial funding was allocated for each category below, as shown by **Funded** and **Not Funded**. This funding is based on the highest priority components in each of the three groups to address the most critical items. Prioritization was further refined by identifying the critical infrastructure systems where failure to renew either jeopardized mission delivery or significantly increased capital costs for future repair. There are seventeen (17) Facility Renewal, three (3) Educational Technology, and (2) two School Security categories funded.

Facility Renewal

Cost estimates were developed with regional engineering and construction firms to identify the expenditures required to bring the facility systems and building components back to a condition code rating of 5.

Funded	Not Funded
Safety and Building Code Deficiency Corrections	Site Improvements Renewal
ADA Code Deficiency Correction	Site Facilities Renewal
Fire Alarm System Renewal	Restroom Fixtures Renewal
Central Mechanical Plant Renewal	Plumbing Systems General
Cooling and Heating Control System Renewal	Interior Door Assembly Renewal
Air Conditioning and Air Distribution Equipment Renewal	Restroom Finishes and Accessories Renewal
Roofing System Renewal	Building Cabinetry Renewal
Exterior Building Wall Finish System Renewal	Interior Specialties Renewal
Exterior Door/Window/Louver System Renewal	Interior Wall Finishes Renewal
Building Water and Sanitary Piping System Renewal	Interior Ceiling Renewal
Water Heating System Renewal	Flooring System Renewal
Electrical Supply System Renewal	Interior Signage Renewal
Electrical Distribution System Renewal	Interior Stair System Renewal
Electrical Components Renewal	Indoor/Outdoor Pool Renewal
Interior and Exterior Lighting Equipment Renewal	Building Foundation System Renewal
Air Supply and Exhaust System Renewal	Building Structural System Renewal
Site Utility Systems Renewal	

APPENDIX – CONTINUED

Facilities Need Assessment - CONTINUED

Educational Technology

The Educational Technology staff identified needs for completing the technology building cabling system for all campuses, classroom technology infrastructure, and technology equipment renewal.

Funded	Not Funded
Technology Building Cabling Technology Equipment Renewal Classroom Technology Infrastructure	21 st Century Classroom Equipment Renewal

District School Security

The facility services staff used a fencing survey to identify the existing fencing at each campus and developed a preliminary layout to limit access to a single point of entry located at each school building's administration office. Additionally, evaluations were completed with District Security and Educational Technology to identify methods of access control and the use of security cameras at each campus.

Funded	Not Funded
Fencing Access Control	Cameras

APPENDIX – CONTINUED

State Requirements

Section 212.055(6)(c) of the Florida Statutes states that a “resolution providing for the imposition of the surtax shall set forth a plan for use of the surtax proceeds for fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of school facilities and campuses which have a useful life expectancy of 5 or more years, and any land acquisition, land improvement, design, and engineering costs related thereto. Additionally, the plan shall include the costs of retrofitting and providing for technology implementation, including hardware and software, for the various sites within the school district. Surtax revenues may be used for the purpose of servicing bond indebtedness to finance projects authorized by this subsection, and any interest accrued thereto may be held in trust to finance such projects. Neither the proceeds of the surtax nor any interest accrued thereto shall be used for operational expenses.”

Independent Citizens Oversight Committee

In previous years, the District included the Half-Cent Sales Surtax on the ballot to address the decline in capital revenue but did not receive the required number of votes to pass. To increase transparency, an addition to the November 4, 2014 ballot was the creation of the Independent Citizens Oversight Committee (ICOC).

The ICOC process started October 2014 where applications were submitted through the United Way of Brevard. An independent ICOC Selection Committee, which included representatives from the four Brevard County Chambers of Commerce, a representative from the Capital Outlay Committee, and three parents met on December 11, 2014 to review ICOC applications and make a recommendation to the School Board. The School Board appointed ten (10) Brevard resident volunteers as members of the ICOC on February 10, 2015. The ICOC members were selected based on their relevant expertise and reputations within Brevard County and they consist of a multitude of different backgrounds which include business, construction, design, education, financial, legal, and technology.

The ICOC began meeting bi-monthly on February 25, 2015 to provide oversight to the use of funds collected from the sales surtax. Annual reporting of the projects utilizing these funds are required to be presented to the School Board and School Board Audit Committee and are available for public review.

The ICOC Charter was independently developed by volunteer citizens not affiliated with Brevard Public Schools and the ICOC is not terminated until all funds collected during the six-year period of the Half Cent Sales Surtax have been expended as approved by the School Board at their October 14, 2014 meeting. The Charter’s Purpose states that:

“ICOC shall provide general oversight of the expenditures made through funds generated by the one- half cent surtax on sales for school facilities approved by the citizens of Brevard County on November 4, 2014. The key focus of ICOC is to assure that School Board’s capital expenditures for mission critical Facility Renewal, Educational Technology and School Security items are made in accordance with the School Board’s published site-based priority list, sequenced by highest severity of need and category ranking priority to best maintain a safe and appropriate educational environment. Additionally, ICOC will evaluate the appropriateness of capital expenditures that are substituted for previously published items due to newly recognized needs deemed to be at a higher severity of need and category ranking priority than the previously published item or items replaced.”



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