



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

**Prepared By:  
Internal Auditors  
October 4, 2016**

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October 4, 2016

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 15, 2016 and to the Independent Citizen Oversight Committee on December 14, 2016. Our report is organized in the following sections:

<b>Overview</b>	This provides an overview of the Half-Cent Sales Surtax function.
<b>Objectives, Approach and Results</b>	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.
<b>Appendix</b>	This section includes results of the Independent Citizens Oversight Committee survey.

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**

## Overview

# Overview

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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 42 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 second 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 project with a total cost of \$1 million 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.

## ***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.”

## ***Facilities Needs 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.

## Overview – continued

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
<b>Total</b>	<b>\$757,449,002</b>	<b>\$197,485,384</b>

\*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

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	

## Overview – continued

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### 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 <sup>st</sup> 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

### ***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."*

## Overview – continued

### Funding Snapshot

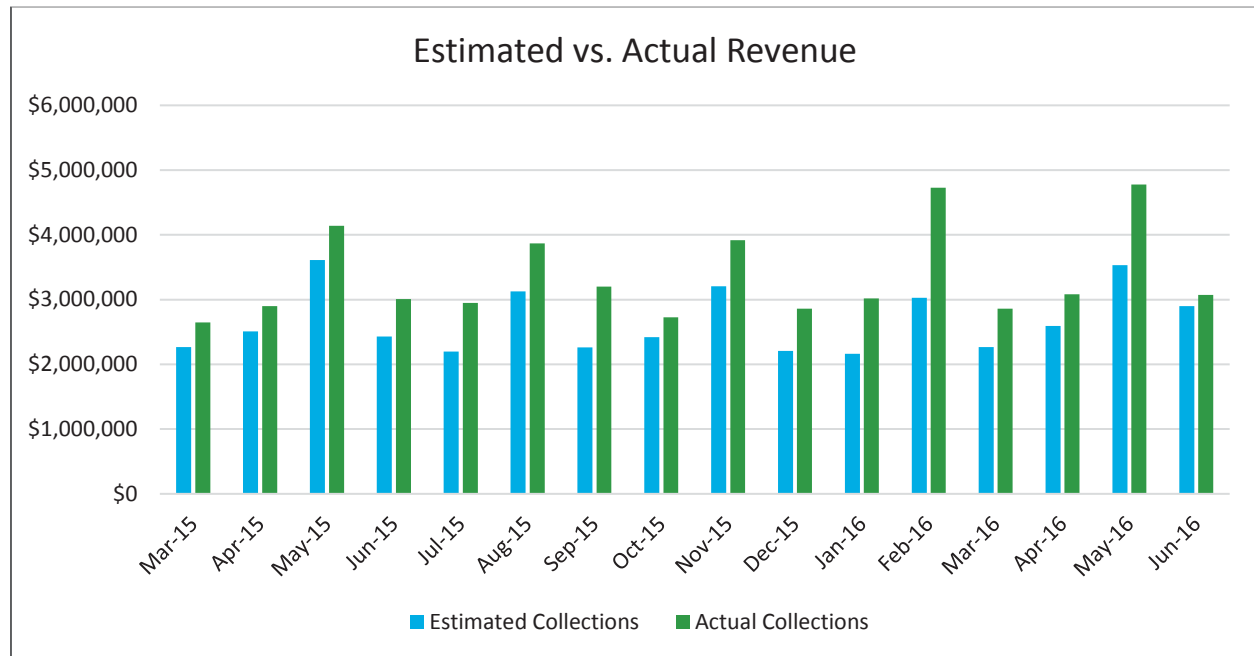
Below are revenue and expenditure tables to provide an understanding of the funds received and the use of these funds as of June 30, 2016.

Actual collections since program inception totaled \$53,756,865 and expenditures were \$20,552,505 as of June 30, 2016. 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 will grow in 2016 in comparison with 2015, as a greater number of projects are currently in process.

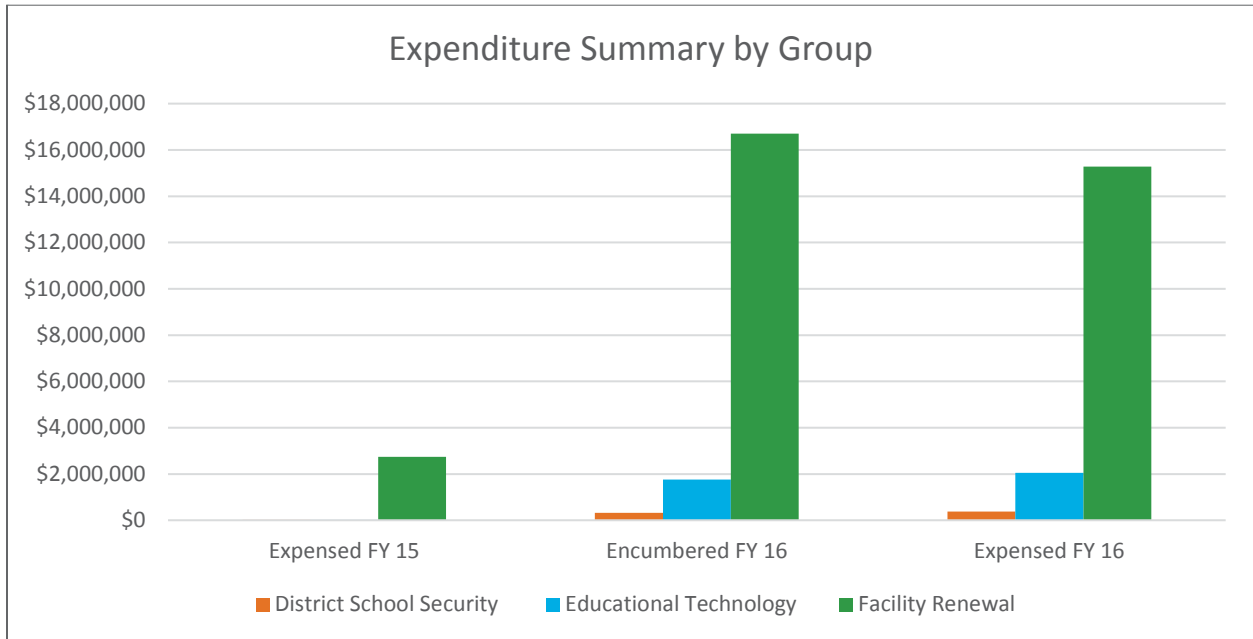
The District, upon recommendation from the Department of Revenue, modeled their estimate of incoming surtax revenues off of a neighboring local government. To date, the District has received revenues in excess of the original estimate as they are accruing at a rate faster than predicted as shown below:





## Overview – continued

The following chart represents the expenses incurred by group for fiscal years 2015 and 2016.



## **Objectives, Approach and Results**

# Objectives, Approach and Results

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## Objectives

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, and the general public.

Objectives of this engagement include the following:

- To audit the accuracy, existence, appropriateness and valuation of 50% of the revenues and expenditures of the Half Cent Sales Surtax as of June 30, 2016 as reported in the August 17, 2016 meeting of the ICOC;
- To gain an understanding of the pay application or invoice review process performed by the District before approving a pay application or invoice for payment;
- To determine that the role of the ICOC is designed and functioning as an independent monitoring and oversight function, in accordance with community and School Board expectations;
- 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 attended the ICOC committee meeting held on August 17, 2016 and conducted a survey of each of the ICOC members 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 second 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 validate the financial data reported by District Management to the ICOC. They 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

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 conducted an exit conference with the CFO, Assistant Superintendent of Facilities, Director of Purchasing, Director of Accounting Services, and the Director of Planning and Project Management to discuss the results of the report. We will report to the Audit Committee at the November 15, 2016 meeting, and to the Independent Citizen's Oversight Committee in their December 14, 2016 meeting.

# Objectives, Approach and Results – continued

## Results

We concluded our testing as detailed below. There were no exceptions noted in our detailed testing of Revenue and Expenditures.

During our review of Procurement, we noted no new RFP or RFQ packages had been issued since the previous audit period. The population of contractors retained via the RFP or RFQ process had not changed. Therefore, we did not retest this population. Per District Management, new solicitations for contractors are in various stages of commencement, and thus will likely be included in our next audit cycle.

Below are the results of our detailed testing.

## Revenue

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

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	TBD	TBD
1. Mathematical accuracy/Valuation	✓	✓		
2. Confirm existance and occurance	✓	✓		
3. Confirm proper period recognition	✓	✓		
4. Confirm appropriateness and allowability	✓	✓		
5. Recalculate internal labor allocation	✓	✓		








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 appropriate and allowable per the Florida Statutes and project scope requirements.
- 5) Recalculate allocation of internal labor in accordance with District procedure.

## Objectives, Approach and Results – continued

### Procurement

During our review of Procurement, we noted no new RFP or RFQ packages had been issued since the previous audit period. The population of contractors retained via the RFP or RFQ process had not changed. Therefore, we did not retest this population. Per District Management, new solicitations for contractors are in various stages of commencement, and thus will likely be included in our next audit cycle.

Procurement	Period Audited			
	November 30, 2015	June 30, 2016	TBD	TBD
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		

## **Appendix**

# Half Cent Sales Surtax Overall Function Survey

## SBBC Half Cent Sales Surtax Overall Function Survey

Survey Questions	1	2	3	4	5	6	7	8	9	10
1. Is the District being a good steward in how they are handling the sales tax funds?	Yes	Yes	Yes	Yes	Yes	Yes	NR	NR	NR	NR
2. Are you receiving all the information you need from the District in order to effectively review the half-cent surtax expenditures?	Yes	Yes	Yes	Yes	Yes	Yes	NR	NR	NR	NR
3. Is the ICOC functioning effectively and in accordance with the charter?	Yes	Yes	Yes	Yes	Yes	Yes	NR	NR	NR	NR
4. Is the ICOC meeting regularly enough to address all concerns?	Yes	Yes	Yes	Yes	Yes	Yes	NR	NR	NR	NR
5. Do you as a committee feel empowered to bring any unresolved concerns to the Board?	Yes	Yes	Yes	Yes	Yes	Yes	NR	NR	NR	NR
6. Are there things the District can do better or differently in use of the sales tax funds?	Yes	Yes	No	No	No	Yes	NR	NR	NR	NR

### 7. Are there any comments you would like to make to RSM, the Internal Auditors?

1	I think RSM knows my feelings about the great work that I feel the oversight committee is doing. And I am not saying that because I am the chairperson. With the input of the district facilities department, we are provided more than enough information to insure that the surtax is being spent in accordance with the referendum language. If there was one thing I wish could be done was spend more money on equipment that is of higher quality. But we are being good stewards of the taxpayers money and understand the need to be conservative.
2	Overall, I feel the Committee is doing its best to oversee the use of the sales tax funds. The District staff support us and keep us informed of their forward-going approach. More effort should be made by the District to communicate with the public about what the sales tax is for and what is being done with it. There continues to be a perception that the sales tax money is just to fund whatever schools need rather than the highly restricted and prescribed categories of spending that were part of the ballot initiative. There are several issues/questions to be considered that are outside the mission of the committee but need to be strategically resolved at the District level so that the sales tax funds can be used most efficiently. These issues are: how the sales tax funds support the overall facilities master plan and life cycle replacement of like for like vs better quality equipment (cost/benefit) which may necessitate not completing each item on Attachment F omissions and errors on attachment F and out of sequence equipment failures the age of our facilities and equipment.
3	NR
4	NR
5	I believe that the Sales Tax is being effectively managed by the District and overseen by ICOC.
6	NR
7	NR
8	NR
9	NR
10	NR

\*NR = No Response





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