



**School Board of Brevard County, Florida
Half-Cent Sales Surtax
Internal Audit
Fiscal Year 2015-16**

**Prepared By:
Internal Auditors
April 12, 2016**

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April 12, 2016

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Pursuant to the School Board of Brevard County, Florida (“District”) approved audit plan for fiscal year (“FY”) 2015-16, we hereby present our internal audit of the Half-Cent Sales Surtax. We will be presenting this report to the Independent Citizen Oversight Committee on April 20, 2016 and the joint School Board and Audit Committee meeting on April 28, 2016. Our report is organized in the following sections:

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.
Appendix	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

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 first 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 six-year life of the sales surtax.

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.

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.

Overview – continued

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, only \$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

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

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

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

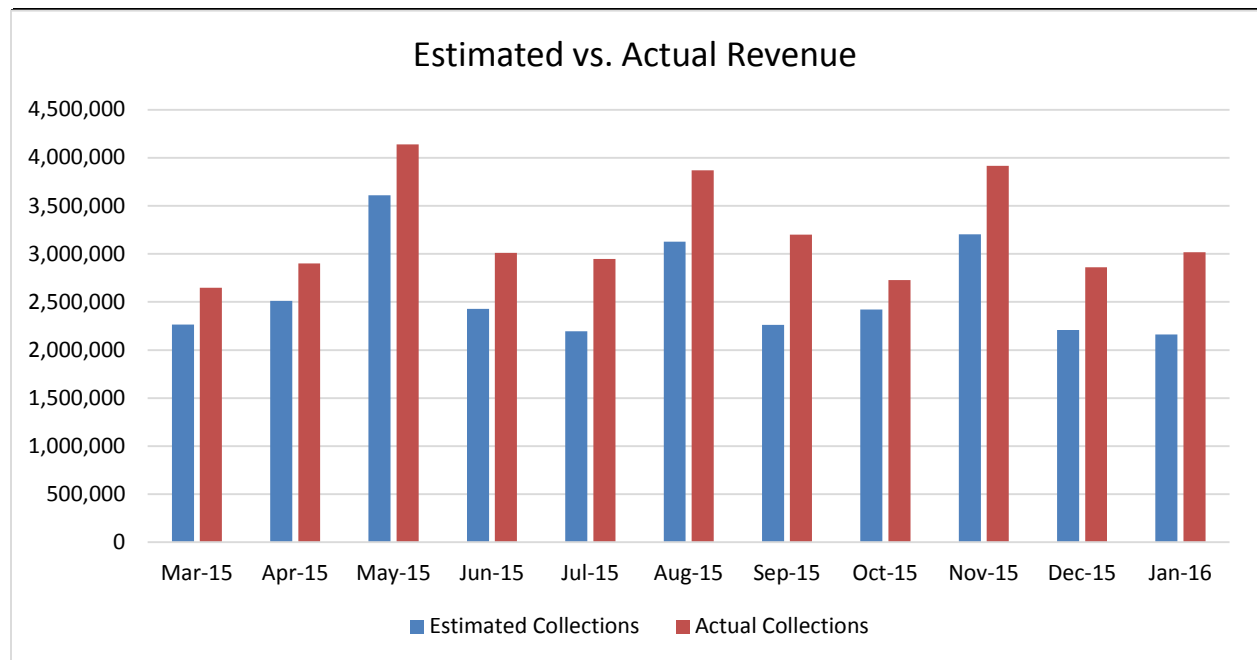
Below are revenue and expenditure tables to provide an understanding of the funds received and the use of these funds as of January 31, 2016.

Actual collections totaled \$35,231,539 and expenditures were \$6,669,527 as of January 31, 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. The initial revenue was not received until March 2015. The projects executed in summer 2015 were, for the most part, already planned and designed with capital funding. Several of the summer 2015 projects have an additional phase planned for summer 2016.
- 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.

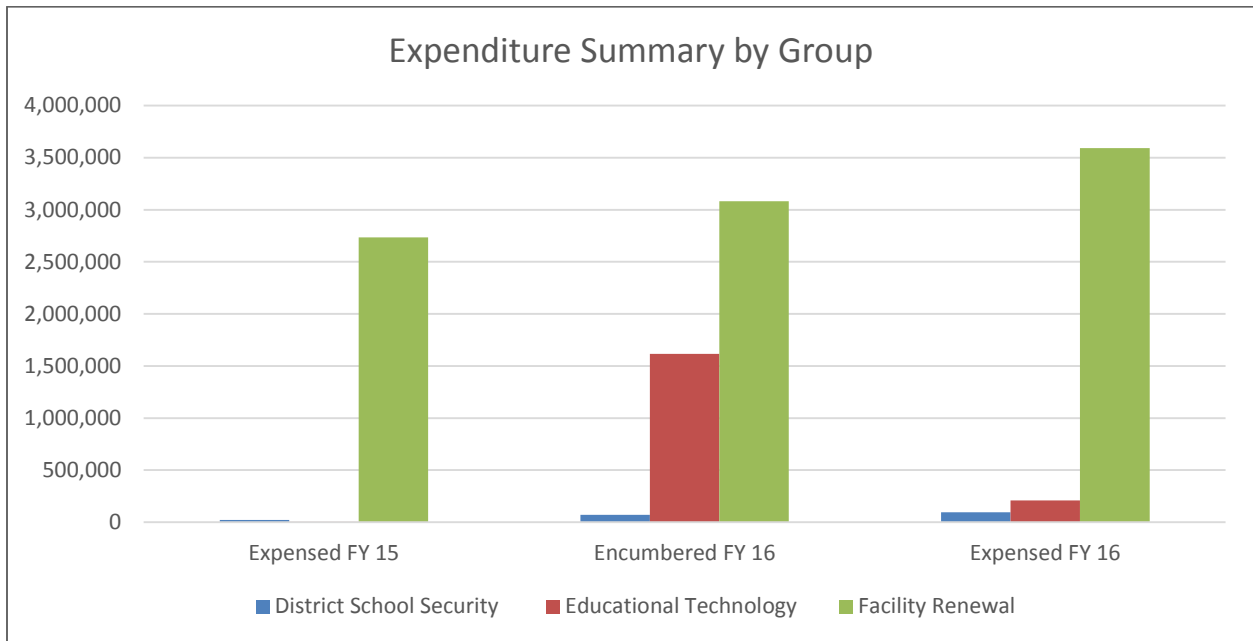
Fabrication and delivery time for major components such as chillers sometimes impacts the project schedule. The District has stated that the pace of expenditures will grow in 2016 as a greater number of projects are currently in process.

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 a surplus of revenues in comparison with the original estimate as shown below.



Overview – continued

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



Objectives, Approach and Results

Objectives, Approach and Results

Objectives

The primary purpose of this audit was to assess the design and effectiveness of internal controls in place over the Half-Cent Sales Surtax function and to validate the 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 and valuation of the revenues and expenditures of the Half Cent Sales Surtax as reported in the February 17, 2016 meeting of the ICOC;
- To verify the fulfillment of the pre-election commitments made by the District to the community and documented in the referendum that was voted on and approved on November 4, 2014;
- To verify that the controls surrounding surtax revenues and expenditures provide for proper monitoring, recording, and accounting of such revenues;
- To verify 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

At the December 11, 2015 Audit Committee meeting, we presented our proposed objectives to the Audit Committee. 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 meetings held on December 16, 2015 and February 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 first 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:

- Pre-election Criteria
- Revenues
- Expenditures
- Procurement

We conducted an exit conference with the 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 directly to the ICOC at the April 20, 2016 meeting and to the School Board, and Audit Committee on the joint meeting scheduled for April 28, 2016.

Objectives, Approach and Results – continued

Results

We concluded our testing as detailed below. There were no exceptions noted in our detailed testing of Pre-Election Criteria, Revenue, and Expenditures. During our testing of Procurement we tested 7 criteria including: advertising compliance, mathematical accuracy, verification of a short list, compliance with date stamp procedures and contracting. We noted no exceptions in 6 of the 7 testing criteria. The exceptions were for 2 of the 3 RFP's selected for testing where we noted inconsistent date stamping, and thus, no proof of acceptance within the terms of the RFP. We have communicated these results to management and will continue to follow up on these exceptions.

Below are the results of our detailed testing.

Pre-Election Criteria

Pre-election Criteria	Report Date
	April 2016
1. Funds planned usage is for facilities renewal, school security, and technology	✓
2. Scope of projects determined by a needs-based detailed assessment of condition	✓
3. Prioritization determined by appropriate criteria	✓
4. Creation of Independent Citizens Oversight Committee to help monitor expenditures	✓

Our testing procedures for Pre-Election Criteria were based upon the requirements as set forth in Brevard County Resolution 2014-01 and its related Exhibits, which called for the November 4, 2014 referendum election to levy the sales surtax. As these requirements were tested and no exceptions were noted, these test procedures will not be performed in future audits of Half Cent Sales Surtax.

Revenue

Revenue	Report Date			
	April 2016	October 2016	April 2017	October 2017
1. Verify appropriate allocation	✓			
2. Mathematical accuracy	✓			
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 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

Procurement

Procurement	Report Date			
	April 2016	October 2016	April 2017	October 2017
1. Proper competitive solicitation	✓			
2. Verify proper advertisement	✓			
3. Verify short list	✓			
4. Verify vendor packages are received/stamped by due date	✗			
5. Verify negotiations	✓			
6. Scoresheets	✓			
7. Executed contract	✓			

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 3 RFP packages and 2 RFQ 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.

Exceptions

Verify received/stamped by due date – We were not able to verify that all proposals received by the District for the RFPs and RFQs tested were received by the deadline as set forth in the respective RFP/RFQ, as a complete set of “received” time stamps was not available. We recommend the Purchasing Department keep all time-stamped documents for all RFP/RFQ vendor proposals submitted to the District in order to maintain an audit trail of compliance with the competitive solicitation process as per *Florida Statute 287.057(1)*.

Objectives, Approach and Results – continued

Procurement - continued

Best Practice Observations

The District currently utilizes a selection of design-build contractors with continuing services contracts that were executed in 2013 and expire in 2016. The Design Build Continuing Services RFQ was published in the Florida Today on 10/30/2013 and the bid opening was 11/26/2013, which is a total of 28 days prior to bid opening.

- Per *Florida Statute 255.0525(2)*, “the solicitation of competitive bids or proposals for any county, municipality, or other political subdivision construction project that is projected to cost more than \$500,000 shall be publicly advertised at least once in a newspaper of general circulation in the county where the project is located at least 30 days prior to the established bid opening.”
- Per *Florida Statute 287.055*, “each agency shall publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project the basic construction cost of which is estimated by the agency to exceed the threshold amount provide”

The Florida Statutes do not explicitly require continuing services contracts to be competitively bid, as the contractors are selected based upon qualifications rather than pricing. However, as our understanding is that for certain groups of contractors the District anticipates awarding multiple small contracts in an accumulated amount greater than the threshold noted in F.S. 255.0525(2), we recommend that the District publicly advertise continuing services RFQ’s to follow the spirit of the competitive solicitation process.

Expenditures

Expenditures	Report Date			
	April 2016	October 2016	April 2017	October 2017
1. Mathematical accuracy	✓			
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; such as, confirm receiving documents, proper approval, and vouching 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 including equitable distribution.
- 5) Recalculate allocation of internal labor in accordance with District procedure.

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	NR	Yes	Yes	Yes	Yes	NR	Yes	NR
2. Are you receiving all the information you need from the District in order to effectively review the Half-Cent Sales Surtax expenditures?	Yes	Yes	NR	Yes	Yes	Yes	Yes	NR	Yes	NR
3. Is the ICOC functioning effectively and in accordance with the charter?	Yes	Yes	NR	Yes	Yes	Yes	Yes	NR	Yes	NR
4. Is the ICOC meeting regularly enough to address all concerns?	Yes	Yes	NR	Yes	Yes	Yes	Yes	NR	Yes	NR
5. Do you as a committee feel empowered to bring any unresolved concerns to the Board?	Yes	Yes	NR	Yes	Yes	Yes	Yes	NR	Yes	NR
6. Are there things the District can do better or differently in use of the sales tax funds?	No	Yes	NR	Yes	No	Yes	Yes	NR	No	NR

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

1	There are things that are outside the scope of the committee and our charter but during doing the business of this committee these things come to light. It would be nice if there were a way to capture these "parking lot" type items or issues such that they can be brought to the attention of the board or appropriate responsible department.
2	NR
3	NR
4	In response to question 6, I would like to see some more flexibility in moving some of the monies around to greater meet the needs of the school system as long as it adheres to the language of the charter.
5	I think the district staff is providing the right level of support and information to the ICOC so that it can accomplish its duties.
6	This is a new process and things are still very much developing. So far the use of the sales tax money is consistent with the intent of the program. Facilities staff have been very open about the process they are using and welcoming of collaboration from the Committee. One area of potential risk is the (sometimes significant) difference between planned repairs and actual needs/equipment failure. District Security also seems like a potential problem area. Minimum requirements for school security and a prioritization of projects have not been communicated to the Committee. Security involves much less money than Facilities but does not seem well defined at the point.
7	NR
8	NR
9	NR
10	NR

*NR = No Response

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