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Community Broadband Network Fiscal Year 2017

Audit Report 2018-A-0002
Issued: February 7, 2018

SUMMARY

What We Did

We conducted an audit of the revenues and expenditures allocated to the Community Broadband Network (“CBN”) for fiscal year 2017. Our audit included: (1) preparing a Statement of Activities (**Attachment A**); (2) determining if the requirements of the Interlocal Agreement (“Agreement”) were followed; (3) determining if revenues were allocated to offset the cost of maintenance; and, (4) determining if the expenditures charged were appropriate.

Our audit was conducted in conjunction with the Martin County School District’s (“District”) Internal Auditor.

What We Found

Due to staff changes within the Martin County (“County”) Information Technology Services (ITS) Department, it did not provide the District with an Operations and Maintenance Budget, to include a Capital Improvement, Repair and Maintenance Plan, for fiscal year 2017.

What We Recommend

We made one recommendation that if implemented will assist the County in complying with the terms and conditions of the Agreement.

On January 25, 2018, ITS submitted its response to the Audit Report (**Attachment B**), wherein it agreed with our recommendation.

MARTIN COUNTY CLERK & COMPTROLLER

The Florida Constitution established the clerk of the circuit court as the local constitutional officer who serves as the public trustee for the county. In addition to serving as the clerk to the courts, the clerk provides a county level system of checks and balances through services as the county comptroller, clerk to the board of county commissioners, guardian of public and official records, clerk to the value adjustment board and internal auditor of county funds.



The internal audit activity is established as a responsibility of the County Clerk & Comptroller by Florida Constitution Article VIII, §1, cl.(d) as the “ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds.” The internal audit activity is administered on the government organizations of the County Clerk & Comptroller, and its functional divisions; and, the Martin County Board of County Commissioners (“County Commission”), and its functional divisions, as enumerated in the State Constitution, State Statutes and decisions and opinions of the State Judiciary.

BACKGROUND

On December 14, 2010, the County Commission and the District entered into an Agreement for the “use of mutual assets, comprised of Fiber Optic Network, underground conduit and other related assets owned individually and jointly” by the County and the District. The Agreement defines the following networks, collectively known as the Community Broadband Network (“CBN”):

- **County Network**: a network owned, operated and managed by the County to serve the communications needs of many government and non-profit institutions operating in the County.
- **District Network**: a separate network owned, operated and managed by the District to serve the communications needs of public schools in the County.
- **Project Network**: a Fiber Optic Network to serve County sites, and other governmental and non-profit institutions, including the District’s sites.



The District paid \$1.245 million to the County, as its “equitable share of the project costs” for an “undivided thirty percent (30%) ownership interest in the Project Network.” The Project Network is further defined to include “the fiber optic cable bundles, conduits, vaults, splice enclosures, patch enclosures and other physical layer components and appurtenances comprising routes” throughout the County. Key provisions of the Agreement are as follows:

1. An initial 25 year term, with additional 5 year renewals.
2. The County is solely responsible for the operation, maintenance and repair of the Project Network.
3. By February 1, each year, the County, in coordination with the District, shall develop a “Project Network and County Network Operations and Maintenance Budget (“Budget”)” for the coming fiscal year. The budget is to be submitted to the District for review and comment.
4. The County, in coordination with the District, shall develop a “three year capital improvement, repair and maintenance plan for the Project Network and County Network.”

5. The Budget shall include a separate fund for long term capital improvements.
6. Revenues collected by the County as a result of the users, other than the County or the District, of the Project Network and/or County Network, shall be allocated to offset the cost of maintenance of the Project Network and County Network.
7. The District shall reimburse the County for twelve percent (12%) of any costs incurred by the County which are in accordance with the approved Operations and Maintenance Budget.

OBJECTIVES, SCOPE AND METHODOLOGY

The County Commission is responsible for establishing and implementing a system of internal controls designed to provide a reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. The **objective** of this audit is to (1) prepare a Statement of Activities; (2) determine if the requirements of the Agreement were followed; (3) determine if revenues are being allocated to offset the cost of maintenance; and, (4) determine if expenditures charged are appropriate.

The **scope** of this audit is from October 1, 2016 through September 30, 2017, the County's fiscal year. Audit **procedures** included, but were not limited to:

1. Reviewing the Interlocal Agreement
2. Reviewing source documents maintained in the County's financial system (Banner)
3. Reviewing the allocation of revenues and expenditures to the CBN
4. Interviewing County staff
5. Interviewing District staff

The audit was planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our comments and conclusion based upon the objectives. This audit report is intended to provide management and those charged with governance and oversight with information to improve program performance and operations, reduce cost, facilitate decision making by parties with responsibility to oversee or initiate corrective action and contribute to public accountability. We believe that the evidence obtained provides a reasonable basis for our comments and conclusions based upon our stated objectives.

OPPORTUNITIES FOR IMPROVEMENT AND RECOMMENDATIONS

Observation (1):

For fiscal year 2017, the Information Technology Services Department did not adhere to the requirements of the Interlocal Agreement, which required it to provide the Martin County School District with an Operations and Maintenance Budget, to include a Capital Improvement, Repair and Maintenance Plan, by February 1.

Criteria:

Interlocal Agreement for Construction, Maintenance and Shared Use of Community Broadband Network and Interagency Cooperation; *dated December 14, 2010*

Section 2—Administration and Coordination of the Network, subsection D.—states: the “County shall, in coordination with the District, on or before February 1 of each year, develop a Project Network and County Network Operations and Maintenance Budget for the coming fiscal year and submit such budget to the District for review and comment.” Moreover, [t]he County shall, in coordination with the District, develop a three-year capital improvement, repair and maintenance plan for the Project Network and County Network.”

Internal Audit Review

In coordination with the District’s Internal Auditor, we reviewed revenues and expenditures coded to the CBN during County fiscal year 2017. Section 2D. of the Agreement requires the County, in coordination with the District to prepare a Budget for the “coming fiscal year” and submit it to the District for its review by February 1. The phrase “coming fiscal year” is ambiguous in that the County and the District have different fiscal years: the County’s fiscal year is October 1 through September 30; while the District’s is July 1 through June 30. However, it appears the County and the District have resolved this ambiguity in that on February 1, 2016, the Information Technology Services (ITS) Department submitted its proposed Operations and Maintenance Budget and Capital Projects Budget for fiscal year 2016 to the District.

During County fiscal year 2017, the telecommunications manager responsible for day-to-day management of the CBN retired. However, it appears he did not provide the District with a proposed Operations and Maintenance Budget, to include a Capital Improvement, Repair and Maintenance Plan, for fiscal year 2017. Neither the ITS Department, nor the District’s Internal Auditor could locate such documents.

Recommendations:

1. The Information Technology Services Department, in coordination with the Martin County School District, should annually submit an Operations and Maintenance Budget for the coming fiscal year to the District by February 1, each year.

The Operations and Maintenance Budget is required to include a three-year Capital Improvement, Repair and Maintenance Plan for the County Network and the Project Network.

Management Response: *Mr. Merker stated he agrees with our recommendation and that Information Technology Services Department is currently working on the required financial reports. Additionally, the Information Technology Services Department is attempting to schedule an appointment with the Martin County School Board to ensure it is providing meaningful information.*

ACKNOWLEDGEMENT

Internal Audit staff would like to extend our appreciation to the staff at the Information Technology Services Department and the Martin County School District's Internal Auditor for the cooperation and courtesies extended to us in the completion of this report.

ATTACHMENT A – Page 1
STATEMENT OF ACTIVITIES - 2017

Community Broadband Network

Statement of Activities

For the Year Ended September 30, 2017

| | |
|---|----------------|
| Revenues | |
| Community Broadband Network Access | 58,288 |
| Dark Fiber Lease | 135,624 |
| Insurance Settlement | 10,625 |
| Interest Income | 2,312 |
| Total Revenues | 206,849 |
| Expenditures | |
| Professional Services - IT | 48,662 |
| Repairs and Maintenance | 3,075 |
| Software Maintenance | 5,340 |
| Other Non- Capital Equipment | 5,690 |
| County Labor Expenses | 54,604 |
| Capital Outlay | 13,030 |
| Total Expenses | 130,401 |
| Excess of Revenues over Expenses | 76,448 |
| Other Financing Sources | |
| Contribution by MCBoCC | 13,030 |
| | 13,030 |
| Net Change in Financial Position | 89,478 |
| Fund Balance Beginning | 283,503 |
| Fund Balance Ending | 372,980 |

ATTACHMENT A – Page 2
STATEMENT OF ACTIVITIES – 2014 through 2017

| Schedule A | | | | |
|---|----------------|----------------|----------------|----------------|
| Community Broadband Network | | | | |
| Statement of Activities | | | | |
| For the Years Ended September 30, | | | | |
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Revenues | | | | |
| Community Broadband Network Access | 57,912 | 57,912 | 57,912 | 58,288 |
| County Network Revenues | 6,751 | - | - | - |
| Dark Fiber Lease | 110,582 | 124,152 | 129,164 | 135,624 |
| Insurance Settlement | - | - | - | 10,625 |
| Interest | 27 | 634 | 875 | 2,312 |
| Total Revenues | <u>175,272</u> | <u>182,698</u> | <u>187,951</u> | <u>206,849</u> |
| Expenditures | | | | |
| Professional Services - IT | 11,732 | 26,550 | 14,985 | 48,662 |
| Repairs and Maintenance | - | 21,220 | 20,197 | 3,075 |
| Software Maintenance | 3,360 | 5,340 | 5,340 | 5,340 |
| Other Equipment | - | - | - | - |
| Other - Non Capital Equipment | - | - | - | 5,690 |
| County Labor Expenses | 55,141 | 53,848 | 56,299 | 54,604 |
| Capital Outlay | 6,815 | 14,222 | 18,572 | 13,030 |
| Total Expenses | <u>77,049</u> | <u>121,180</u> | <u>115,393</u> | <u>130,401</u> |
| Excess of Revenues over Expenses | <u>98,223</u> | <u>61,518</u> | <u>72,558</u> | <u>76,448</u> |
| Other Financing Sources (Uses) | | | | |
| Contribution by MCBoCC | 6,815 | 14,222 | 18,572 | 13,030 |
| Contribution by MCSD | - | - | - | - |
| | <u>6,815</u> | <u>14,222</u> | <u>18,572</u> | <u>13,030</u> |
| Net Change in Financial Position | <u>105,039</u> | <u>75,740</u> | <u>91,130</u> | <u>89,478</u> |
| Fund Balance Beginning | 11,594 | 116,633 | 192,373 | 283,503 |
| Fund Balance Ending | <u>116,633</u> | <u>192,373</u> | <u>283,503</u> | <u>372,980</u> |

