



Internal Audit Department

Audit Report 2014-5

Collier County Airport Authority

**USDA Grant / Powder Coating
System**

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The files and draft versions of audit reports remain confidential and protected from public records requests during an active audit under *Nicolai v. Baldwin (Aug. 28, 1998 DCA of FL, 5th District)* and Florida Statute 119.0713. Work-papers supporting the observations noted within this report will become public record and can be made available upon request once the final audit report has been issued.

The draft audit report was released to the Department for Management Response on February 3, 2014. The Growth Management Division Finance and Operations Manager provided the management responses on February 14, 2014. Revised management response was provided on February 18, 2014.

Summary

The County has not provided proper management oversight for operations and leases at the Immokalee Regional Airport. Instances of non-compliance have been detected.

The following observations were generated during this review:

1. Approximately \$163,000 was spent for a powder coating system that was never completed and was not put to the intended use, which violates grant assurances / conditions.
 - a. Grantor agency approval was not obtained when the use of the powder coating system was changed.
 - b. Equipment was missing (i.e. dip tanks).
 - c. A portion of the powder coating equipment has been relocated to storage.
2. The partial payment request submitted to the USDA was not signed by an architect or engineer as required by the forms and contained conflicting information.
3. The County has not complied with F.A.C. asset requirements or CMA 5809.

The following other observations were generated during this review:

1. Manufacturing incubator II lease concerns:
 - a. The lease expired on April 13, 2007 and no new lease was executed.
 - b. The lease appears to have been continued on a month to month basis, but the initial contract and amendments did not provide a term for month to month continuation.
 - c. Rent is not being charged at fair market value.
 - d. Late payments and terms of payments were not approved by the BCC / CCAA.
 - e. Interest and late payment fees do not appear to have been charged.

Failure to comply with grantor requirements may: result in audit findings, jeopardize current and future grant funding; result in disbarment from receiving grant funding, require repayment of grant funds, result in termination of the grant, impact future grant awards, and/or result in liability for damages for misrepresentation.

Objective

The objectives of the review were to: 1) validate the existence of the powder coating equipment; 2) determine whether the powder coating equipment has proper valuation; 3) determine whether all powder coating equipment was received; and 4) determine compliance with the United States Department of Agriculture (USDA) Rural Development (RD) grant requirements.

Scope

The review consisted of, but was not limited to the following tasks:

- Review of the USDA Rural Business Enterprise Grant (RBEG) pre-application, application, award letter, grant agreement, grant amendments, letter of conditions, grant assurances, and grant attestations;
- Review of Department of Community Affairs (DCA) - Community Development Block Grant (CDBG) documentation;
- Review of applicable Governmental Accounting Standards Board (GASB) Statements;
- Review of applicable Code of Federal Regulations (CFR's);
- Review of applicable items from the State of Florida General Records Schedule for State and Local Government Agencies;
- Review of applicable Florida Statutes;
- Review of applicable Florida Administrative Codes (F.A.C.);
- Review of applicable Board of County Commissioner (BCC) Ordinances and Resolutions;
- Review of applicable BCC Meeting Minutes, Agenda Items, and Backup Documentation;
- Review of applicable Collier County Airport Authority (CCAA) Resolutions;
- Review of applicable CCAA Meeting Minutes and Agenda Items;
- Review of CCAA grant files including pay requests, design plans, and photographs;
- Review of applicable lease agreements / participating party agreements for Immokalee Regional Airport;
- Review of applicable County Manager Agency's directives (CMA's);
- Review of Clerk's Finance and Accounting Department capital asset records;
- Review of prior Clerk's Internal Audit Reports and supporting audit work-papers;
- Observation of the manufacturing incubator facility and powder coating equipment;
- Interviews with Collier County Airport Authority staff;
- Interviews with Clerk's Finance and Accounting staff;
- Interviews with a citizen; and
- Review of documentation provided by a citizen.

Background

Powder coating is a dry powder typically applied electrostatically to an item then cured under heat to form a bond. The powder creates a hard finish that is tougher and thicker than conventional paint. Powder coating is mainly used for coating metal (i.e. household appliances, automobiles, vehicle parts). The powder coating process includes three basic steps: part preparation / pre-treatment, powder application, and curing.

On March 26, 1999, the CCAA submitted an application to the Florida Department of Community Affairs for a Community Development Block Grant (CDBG) Economic Development grant requesting funds to construct a USDA approved 20,000 square foot manufacturing incubator facility (Phase II). The project was for the expansion of an existing business (Global Manufacturing Technology, Inc.) at the Immokalee Regional Airport. The grant application indicated the project would be scaled back to a smaller building if full grant funding from the USDA was not received.

The funding breakdown for the project was as follows: \$750,000 from CDBG funds, \$500,000 from the USDA, and \$139,000 from the CCAA for a total estimated construction cost of \$1,389,000.

In September 1999, the CCAA submitted a Rural Business Enterprise Grant (RBEG) pre-application to the USDA. The construction grant application indicated the grant would be “for Construction of a 20,000 sq. ft. structural steel frame building to house: a) Phase II of Global Manufacturing Technology, Inc. incubator facility; b) a bonded storage facility for non-hazardous materials; and c) a complete U.S. Customs office. The facility would be adjacent to the existing incubator facility and would include site work, all utilities, landscaping, security and surface water management associated with comprehensive business park master plan.”

The funding breakdown for the project was as follows: \$750,000 from CDBG funds, \$500,100 from the USDA, and \$139,000 from the CCAA for a total estimated construction cost of \$1,389,100.

On October 1, 1999, the CCAA received the awarded / executed sub-grantee and contractual agreement for \$750,000 of CDBG grant funds requiring a County match of \$639,000 (which may include other grant funds) dated September 29, 1999. Funds awarded were for administration costs and building construction. According to the award package, construction was to start by June 28, 1999 and be completed in December 2000.

The CCAA did not receive the anticipated \$500,000 USDA grant; however, the CCAA ensured the continuation of the project through reallocation of their budget and transferring funds from other projects to the Phase II manufacturing incubator facility. The CCAA reapplied for a reduced USDA Grant.

On July 13, 2000, the CCAA Executive Director submitted a revised RBEG grant application to the USDA requesting to reduce the amount of the RBEG Grant to \$250,000. The revised total estimated cost of the project was \$1,579,000. The estimated funding breakdown for the project was revised as follows: \$690,000 from CDBG funds, \$250,000 from USDA funds, and \$639,000 from a Collier County Contribution.

On March 9, 2001, the USDA provided the CCAA the Letters of Condition for the \$250,000 Rural Business Enterprise Grant. The letter established conditions which must be understood and agreed to by the CCAA prior to the USDA giving the grant application further review and consideration.

On November 5, 2001, the USDA grant application package Exhibit #2 indicated the powder coating facility would consist of primary equipment: fired batch oven, conveyor belts / overhead electric hoist gantry system, rinse / dip tanks, transfer booms, hand push conveyor system, powder-cartridge booth, and powder guns with hopper.

On December 10, 2001, the CCAA approved Resolution 01-34 which estimated the cost of the primary powder coating equipment to be approximately \$250,000 to be paid for from the USDA grant. Resolution 01-34 estimated the cost of secondary equipment (i.e. outside propane storage tanks, holding tanks, and evaporator system) to be approximately \$100,000 where Global Manufacturing Technology, Inc. (tenant) would be responsible for the purchase of the secondary equipment to be negotiated in the lease agreement for the incubator facility.

On May 30, 2002, the CCAA Chairman provided an update for the project status regarding the manufacturing building and the powder coating equipment at the BCC – CCAA Workshop. The CCAA Chairman indicated the powder coating equipment portion of the project had not been finished and all portions of the manufacturing incubator support facility had been completed within budget and on time except the powder coating equipment. The CCAA Chairman indicated the USDA grant would be used for a portion of the powder coating equipment and the CCAA hoped to obtain additional grants to cover the cost of the powder coating equipment. Note: Additional grant funding was not obtained for the completion of the powder coating system.

On June 25, 2002, the BCC approved the acceptance of a \$250,000 grant from the USDA.

On July 30, 2002, the Certificate of Completion was issued for the building. The design and construction of the incubator facility had been completed in the summer of 2002. Multiple delays occurred throughout the project based on design decisions and integration of the powder coating system including additional required work for the powder coating system.

On February 24, 2003, Global Manufacturing Technology, Inc. sent a letter to the grantor agency regarding the participating party agreement requiring job creation. The letter indicated the powder coating system is incomplete.

On June 24, 2003, the BCC declared Global Manufacturing Technology, Inc. in default, for not being able to perform the terms of the Participating Party Agreement. Additionally, the secondary powder coating equipment was not installed leaving the powder coating system inoperable as a powder coating system.

On November 18, 2003, during a BCC meeting, the BCC approved a budget amendment to allocate \$21,000 to the tenant for leasehold improvements and executed a participating party agreement with Florida Architectural Products, Inc. The incubator had remained vacant for more than one year (since the Certificate of Completion was issued on July 30, 2002). The leasehold improvements included new restroom configuration, office spaces, and redesigning of the powder coating system.

On November 18, 2003, a Participating Party Agreement was executed between Florida Architectural Products, Inc. and the BCC for the manufacturing incubator II. The tenant was required to meet the terms of the initial participating party agreement including job creation and retention.

On February 9, 2004, during a CCAA meeting, the CCAA discussed negotiation of the Florida Architectural Products lease to include the conversion of the powder coating system into a wet system; however, tenant improvements would cost an additional \$21,000 which was covered under the obligations of the CCAA in the lease. Once the design work for the changes began, it was apparent that the cost would be greater than anticipated for the conversion. The CCAA motioned to approve a budget amendment for \$13,000 plus 10% contingency with the understanding that any of the contingencies not used for the conversion would be returned to the CCAA and the project scope could not be expanded to consume the contingency. The motion passed unanimously.

The initial estimate of \$21,000 was for costs as follow: \$9,000 for the tenant improvement allowance (\$2,000 from the CCAA and \$7,000 from Financial Administration and Housing) and \$12,000 for the powder coating conversion (\$6,000 from the CCAA and \$6,000 from Financial Administration and Housing).

On March 9, 2004, during a BCC meeting, the BCC approved an additional budget amendment to increase up to \$16,000 of additional estimated costs for the conversion of the powder coating system and other agreed upon improvements. The project included building two offices, installing two interior restroom doors through a rated firewall, and creating a 10' x 14' opening through a rated firewall in the assembly area bay into the bonded warehouse bay. Funds were paid through the General Fund (001) Reserve for Contingencies.

On June 15, 2004, the First Amendment to the Participating Party Agreement between Florida Architectural Products, Inc. and the BCC was executed. The amendment retroactively changed the commencement date to April 14, 2004 because occupancy permits were not obtained until April 14, 2004. The lease expired on April 13, 2007. It does not appear a new lease was executed once the lease expired.

In 2011, Internal Audit completed site visits to observe the manufacturing incubator II and the powder coating system. The powder coating system had been partially installed for primary equipment including a powder cure oven, conveyORIZED cartridge powder booth, powder spray equipment, hand powered conveyor system, dip tank system including dip tanks, powder coating batch oven with an above hood, powder booth. At the time of the inspection the dip tanks were unable to be located by Airport staff. It did not appear secondary equipment had been installed. A portion of the equipment was relocated to a hangar and not located in the manufacturing incubator II. The powder equipment does not appear to have been fully operational and was not used as a powder coating system. Powder coating equipment in use includes the hand operated transfer booms, spray booth, and batch oven.

Observations

1) Approximately \$163,000 was spent for a powder coating system that was never completed and was not put to the intended use, which violates grant assurances / conditions.

On March 9, 2001, the USDA provided the CCAA the Letters of Condition for the \$250,000 Rural Business Enterprise Grant. The Letter of Conditions required “any changes in project scope, source of funds, scope of services, or any other significant changes in the project or applicant must be reported to and approved by Rural Development by written amendment...”.

The USDA 1942-G grant requirements indicate “The grantee shall use the property in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds. When it is no longer needed for the original project or program, the grantee shall use the property in connection with its other federally sponsored activities...” Other uses of the equipment are permissible with the grantor agencies written permission.

The schedule of values submitted to the USDA indicated a portion of the grant funds would be used to install the powder coating system; the project required additional bonding, permits, exhaust fans, lighting / electrical work, ceiling lifts, additional bracing for exhaust fans, and equipment. The portion of the powder coating system that was installed was recorded as an improvement to the building.

Based on payment requests and information provided by CCAA staff, the estimated cost for the powder coating system (partial) is approximately \$163,000. The USDA portion of the powder coating system (partial) is approximately \$114,800. The powder coating system was incomplete and never completed. The powder coating system was never put to its intended use.

The USDA Grant Assurances for Construction Programs (OMB Approved No. 0348-0042) requires the applicant “Will not dispose of, modify the use of, or change the terms of the real property title, or other interest in the site and facilities without permission and instructions from the awarding agency...” The CCAA did not obtain written permission and/or instructions from the USDA.

The powder coating system was partially dismantled and relocated to storage. A portion of the system remains in the manufacturing incubator II and is being used for a different use. Using part of the powder coating system for a different activity is a significant change in project. The dip tanks were unable to be located by Airport staff.

The USDA 1942-G grant requirements indicate “When real property is no longer needed...return all real property, furnished or purchased wholly with Federal grant funds to the grantor. In the case of property purchased in part with Federal grant funds, the grantee may be permitted to take title to the Federal interest therein upon compensating the Federal Government for its fair share of the property.” It is possible the USDA will need to be reimbursed for the grant funds used for the powder coating system since the system was never put to its intended use.

The grantor was not notified and did not provide a written amendment to the grant for the project change. The USDA allows for similar services or project uses for equipment obtained with Federal financial assistance, but would need to approve the change in writing prior to the change being allowed.

When Assurance Agreements are breached or there are violations, the USDA may, at its option: discontinue funding or enforce the agreement by suit for specific performance or by any other available remedy. By not maintaining the asset for the intended use, the CCAA may be liable to reimburse the grantor agency for funds used for the powder coating equipment.

Recommendations:

- The County should notify the USDA of grant assurance / condition violations and all changes to the project. A written waiver for changes to the project and waiver of violations should be obtained.

- The County should comply with the Code of Federal Regulations (CFR's), grant agreements, and grant assurances.
- When assets and/or infrastructure are paid for through grant funding then disposed or used for other activities, the County should receive approval from the grantor agency.
- The County should provide Finance with the appropriate paperwork to reduce the asset's recorded value and update changes for equipment location.

County Management Response:

“The county will work with the grantor, US Dept of Agriculture (USDA), to develop a resolution to the audit finding regarding the potential violations of grant assurances related to the powder coating equipment/system.

County staff will work diligently to comply with applicable CFR's, grant agreements, and grant assurances for all grant projects.

The Airport Authority will not dispose of any property, regardless of whether it was purchased with grant funds or county dollars, without following the proper process in the future to ensure compliance with any applicable regulations which include CFRs, agreements and assurances. Staff agrees permission from the grantor agency to dispose of any property acquired with grant funds shall require approval before disposition. This procedure will be properly followed in the future.

The county will provide Finance with the appropriate paperwork to reflect any necessary adjustments to the value of assets in question.”

2) The partial payment request submitted to the USDA was not signed by an architect or engineer as required by the forms and contained conflicting information.

Form RD 1924-18 (OMB Approved No. 0575-0042) used by the United States Department of Agriculture (USDA) Rural Development (RD) Farm Service Agency for partial payment submissions requires an architect's or engineer's certification for the completed work and estimates.

On August 21, 2002, the Airport Finance Manager signed the partial payment request (number 3) on behalf of the Collier County Airport Authority (CCAA) indicating the submission was approved by the CCAA. On August 21, 2002, Quality Control Builders, Inc., the contractor, signed the partial payment request (number 3) indicating work had been completed in accordance with the contract documents and requesting payment for services rendered.

The partial payment request 3 (form RD 1924-18) submitted to the USDA was not signed and certified by an architect or engineer. The certification is used to indicate work has been inspected by the architect / engineer and the quantities shown in the estimate are correct, services were rendered, and work was performed in accordance with contract documents.

The application and certificate for payment application number 15 was submitted to the USDA without the engineer's certificate for payment. This indicates site observations may not have been performed prior to the submission.

The release and affidavit signed on August 21, 2002 by the contractor indicated in consideration of \$68,987, the contractor will release the Board of County Commissioners (BCC) of any future claims. Payment application number 15 to the CCAA indicated the current payment due was \$68,897 (\$100 discrepancy). The USDA reimbursed the County for the payment request containing the discrepancy.

Inspections for quantities of materials received, services rendered, and contract compliance should be completed prior to the CCAA approving payment for the contractor for services billed and/or submitting the payment request to the grantor agency. Without proper validation of work completed, the County may inaccurately approve payments for contractors. All documentation should be thoroughly reviewed prior to approval for payment or submission to the grantor agency to ensure the consistency and accuracy of the information to prevent project

delays, increased liability, or grantor rejection. When inaccurate information is submitted for a grant, it may jeopardize the grant funding.

Recommendations:

- The County should take care when completing grant payment submissions to ensure all required certifications are completed prior to the submission requesting reimbursement from the grantor agency.
- The County should not approve payments without required certifications.
- The County should more thoroughly review documentation prior to making payments for services rendered to ensure consistency and accuracy.

County Management Response:

“The county will be more diligent in submitting payment applications to ensure all necessary paperwork is completed properly before requesting payment.

County staff will be more diligent about submitting payment requests to ensure the payment requests have the proper certifications in accordance with grantor provisions and the related agreements.

County staff will be more diligent about reviewing documentation more thoroughly before submitting requests for payment.”

3) The County has not complied with F.A.C. asset requirements or CMA 5809.

Florida Administrative Code (F.A.C.) Chapter 69I-73.003(2) requires “Individual Records Required for each property item...Related individual items which constitute a single functional system may be designated as a property group. A property group may be accounted for in one record if the component items are separately identified within the record.”

CMA #5809 indicates the custodian is ultimately responsible for the proper care and use of all property assigned to or provided for use by the department. The custodian is responsible for maintaining up-to-date asset records and to provide updates to Finance as changes occur.

In January 2011, Internal Audit observed the powder coating equipment and manufacturing facility. Portions of the powder coating system had been removed from the manufacturing facility and relocated to storage indicating the items should have been identified separately within the property group. Airport staff were unable to provide a list of equipment / items obtained when the powder coating system was purchased. A lump sum billing was the only record provided.

F.A.C. Chapter 69I.73.003(3)(c) Content of Property Records requires the physical location to be identified for each asset. When assets are disassembled and a portion of the equipment moved to storage / hangar, the asset records should be updated to reflect the change. Without properly recording the location of the asset, it may give the appearance of theft or fraud and cause financial information to be inaccurate.

Assets should be properly controlled, tracked, and monitored. When assets are not properly recorded and there is a lack of an audit trail, it may cause financial information / asset records to be inaccurate. Proper records must be available to ensure the accuracy of asset records.

Recommendations:

- The County should comply with Florida Statutes, Florida Administrative Codes, and County policies and procedures.
- The County should provide Finance with the appropriate documentation to update asset records.

County Management Response:

“The county will strive to comply with Florida Statutes, FAC’s, and county policies and procedures.

After an analysis is performed by Staff, documentation will be presented to Finance for any adjustments to asset values and/or records as considered necessary. Staff wishes to review any such adjustments with Finance staff to ensure all parties are in agreement with the proposed revisions.”

Conclusion

According to CCAA minutes, observation, and interview; the powder coating system was never completed. Secondary equipment was required to have a functioning powder coating system. Secondary equipment was not obtained. Once the primary powder coating equipment was installed, the equipment was dismantled and a portion of the equipment was moved to storage. Grant money was used to purchase and install the powder coating system. The grantor has not provided written approval for the change of use, as required by the grant conditions.

All requirements of the grant applications, assurances, and agreements should be met or specifically addressed when projects change. Proper grantor approval should be obtained prior to changing projects and/or disposing of assets purchased with grant funds.

Failure to comply with grantor requirements may: result in audit findings, jeopardize current and future grant funding; result in disbarment from receiving grant funding, require repayment of grant funds, result in termination of the grant, impact future grant awards, and/or result in liability for damages for misrepresentation.

Audits do not relieve management of their responsibilities. It is the responsibility of County management to understand and implement the proper procedural controls in order to reduce and limit the risk of fraud, error, and misappropriation of County assets. Internal Audit may recommend improvements in audit reports, but ultimately it is the duty and decision of County management to formulate processes and controls that ensure compliance with Federal regulation, State statute, County ordinance, and County policies.

Recommendations:

- The County should properly monitor grant assets to ensure compliance with federal requirements.
- The County should complete the appropriate paperwork when disposing of an asset to ensure assets are properly recorded.
- The County should review the CDBG grant for compliance. The County should work with the grantor agency to determine if the County has further obligations under the grant.
 - Job creation requirements and program income should specifically be reviewed.
- The County should verify tenants have valid leases and insurance.

Additional County Management Comments:

“With the merger of the Airport Authority into the Growth Management Division, the Authority has a more robust support system in relation to grants management as well as monitoring of county approved policies and procedures (which include properly monitoring and safeguarding of assets). Capital assets have recently been 100% physically inspected by GMD staff (unrelated to airport operations) to ensure an independent validation of asset records for the cost center director change.

County staff is currently reviewing the CDBG grant compliance with regard to the job creation requirements and program income in conjunction with the lease review.

Staff looks forward to remediating these findings and will work with the Clerk’s Office on the corrections and keeping the proper parties notified of communications from the grantor.”

Internal Audit Response to Management Comments and Additional Comments:

Internal Audit gratefully acknowledges the cooperation and assistance from County staff. The assistance and responses provided by the division greatly assisted in the audit process for the review.

Exhibit A

**Immokalee Regional Airport – 2013
Collier County Property Appraiser – Aerial Image
Manufacturing Incubator II**

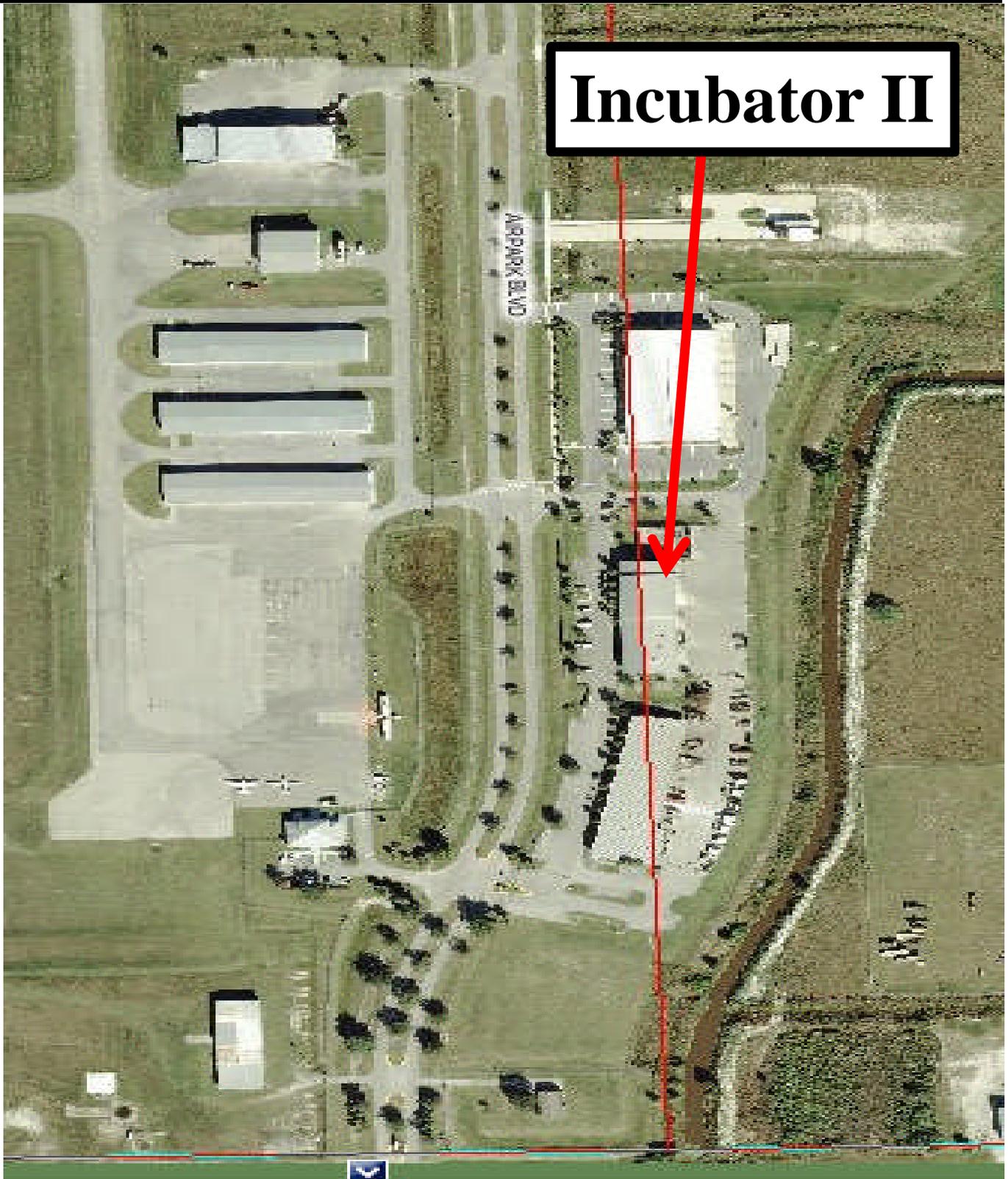


Exhibit B

Management Timeline

Executive Airport Director	Starting	Ending	Notes
John Drury	1994	Approx. September 2002	
Bob Tweedie	October 2002	May 2003	Interim
Gene Schmidt	May 2003	December 2004	
Teresa Cook	December 2004	December 2009	
Debra Brueggerman	December 2009	May 2010	Interim
Penny Phillippi	May 2010	September 2010	Interim
Thomas Chris Curry	September 2010	September 2013	