



## **Internal Audit Department**

# **Audit Report 2015-3**

**Job Creation Investment Program:**

**Arthrex, Inc., and Arthrex  
Manufacturing, Inc.**

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The files and draft versions of audit reports are confidential and exempt from public records requests during an active audit under *Nicolai v. Baldwin (Aug. 28, 1998 DCA of FL, 5<sup>th</sup> District)* and §119.0713, Florida Statutes. Workpapers supporting the observations noted within this report become public record and will be made available upon request once the final audit report has been issued.

Internal Audit provided a draft of this report to the Office of Business and Economic Development for management response on May 21, 2015. County management provided that response on May 28, 2015.

## Summary

This examination generated the following observations regarding the Job Creation Investment Program:

- Arthrex initially indicated that it had created 282 eligible jobs. Upon Internal Audit's review of Arthrex' methodology, it was determined that more than 400 positions were eligible under the program.
- By reviewing Arthrex personnel records and contacting a random sample of Arthrex employees in person to establish their validity, the Office of Business and Economic Development and the Clerk's Internal Audit Department corroborated 400 jobs that qualified for a Job Creation Investment Program incentive payment of \$266,667.

## Objectives

The objective of the audit engagement was to validate the number and eligibility of new jobs that qualified for the Job Creation Investment Program incentive payment.

## Scope

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

- Reviewing applicable Florida Statutes;
- Reviewing applicable Collier County Ordinances;
- Reviewing applicable Board of County Commissioners (BCC) Agenda Items and related Meeting Minutes;
- Reviewing the BCC's Job Creation Investment Program Agreement with Arthrex;
- Examining payroll and personnel records from Arthrex;
- Tracing payroll data, such as employee numbers, names, job titles, hire and/or promotion dates, wages, work locations, and lawful United States residency, to the personnel records; and
- Contacting sampled employees in person to validate their existence.

The Office of Business and Economic Development and the Clerk's Internal Audit Department verified 100% of applicable payroll and personnel records for the positions that Arthrex created. Internal Audit also selected a random sample of 11.75% of the employees holding eligible positions at locations in Collier County. Internal Audit and Business and Economic Development staff physically met, or documented the absence of, every employee in that sample.

## Background

The Clerk's Internal Audit Department assisted the Office of Business and Economic Development in validating jobs created by Arthrex in accordance with the Job Creation Investment Program. This program is a performance-based initiative authorized in Collier County Ordinance 2003-60, as amended. The program provides general revenue funding to local businesses for the creation of jobs that meet the criteria specified in the Ordinance. Those criteria, which vary by geographic location within Collier County, include minimum numbers of new jobs at or exceeding specific wage levels.

Collier County Ordinance 2003-60 states that the program's purpose is "to promote and foster economic diversification through the retention and creation of high wage jobs in targeted industry clusters." Ordinance 2006-36 defines jobs as "limited to individual permanent legal residents of the United States who are employed in each new created position of employment at a primary location in Collier County, and as applicable maintained, as a result of the program." Ordinance 2003-60 originally terminated this program on October 1, 2008, but on September

9, 2008, the BCC enacted Ordinance 2008-46, which extended the Job Creation Investment Program through October 1, 2013. The BCC approved a Job Creation Investment Program agreement with Arthrex on January 24, 2012, prior to the ordinance's expiration.

To be eligible, businesses must apply to the County Manager prior to making the decision to locate or expand within Collier County. In keeping with the Job Creation Investment Program and the BCC's agreement with Arthrex, the general fund pays \$2,000 over a three year period for each job created to qualified and approved business applicants.

## Observations

### **1) Arthrex actually created more eligible positions than it initially estimated.**

In its initial schedule of employees provided for validation, Arthrex included employees transferred to Lee County. The wages of those transferred employees were reflected as negative numbers in that schedule. Those negative amounts caused the average wage of all new hires to be understated, and resulted in potentially only 282 new hires to qualify for the Job Creation Investment Program incentive. Clerk's Internal Audit discussed the understatement from including the transferred employees in the validation schedule with Arthrex management. Arthrex management explained that, because this was its first Job Creation validation, Arthrex employed a very conservative approach in its wage calculation methodology. All parties agreed to remove the transferees to Lee from the schedule. This increased the average wage sufficiently to qualify 118 more Collier-based employees for the Job Creation Investment incentive, thus achieving the contractual upper limit of 400 qualifying new hires.

### **2) The Business and Economic Development Office and Clerk's Internal Audit Department corroborated 400 new jobs that qualified for a Job Creation Investment Program incentive payment.**

The Office of Business and Economic Development, in conjunction with Clerk's Internal Audit Department, reviewed Arthrex personnel records and contacted a random sample of new Arthrex employees in person. These validation procedures corroborated 410 jobs that qualified for a Job Creation incentive payment. The BCC's agreement with Arthrex is limited to paying for up to 400 jobs created in Phase I. It has been verified that Arthrex is eligible for a Job Creation Investment Program incentive payment of \$266,667.

## Management Response

*"I have reviewed the submitted Audit Report #2015-Arthrex regarding Arthrex Manufacturing's compliance with incentive criteria established by Job Creation Agreement in place with Collier County. I concur with the audit findings and consider the Arthrex Manufacturing currently in compliance with the obligations within the Job Creation Agreement up to June 30, 2014 as specified for Phase One. Staff appreciates the professional and pragmatic approach exhibited by the Internal Audit Department for this performance validation process."*

### **Internal Audit Comments:**

*Internal Audit acknowledges the cooperation of Arthrex management and County staff for their assistance in research, review, and documentation. The assistance and responses provided by the Office of Business and Economic Development greatly supported the audit process.*