



# **Internal Audit Department**

## **Audit Report 2016-4**

### **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 5, 2016. County management provided that response on May 13, 2016.

## Summary

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

- Arthrex maintained the 400 eligible new jobs validated through June 30, 2014.
- Arthrex created 100 more eligible new jobs during 2015.

## Objectives

The objective of the audit engagement was to validate the number and eligibility of continuing and new jobs that qualified for the Job Creation Investment Program incentive payment during the period from July 1, 2014, through June 30, 2015.

## 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; and
- 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.

The Office of Business and Economic Development and the Clerk's Internal Audit Department verified 100% of applicable payroll and personnel records for Arthrex' created positions.

## 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 was a performance-based initiative authorized in Collier County Ordinance 2003-60, as amended. The program provided general revenue funding to local businesses for the creation of jobs that met the criteria specified in the Ordinance. Those criteria, which varied by geographic location within Collier County, included minimum numbers of new jobs at or exceeding specific wage levels.

Collier County Ordinance 2003-60 stated that the program's purpose was "to promote and foster economic diversification through the retention and creation of high wage jobs in targeted industry clusters." Ordinance 2006-36 defined 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 program's expiration.

To be eligible, businesses had to apply to the County Manager prior to making the decision to locate or expand within Collier County. In keeping with the Job Creation Ordinance and the BCC's Job Creation Investment Program Agreement with Arthrex, the general fund would pay \$2,000 over a three-year period for each job created.

In its 2011 application to participate in Collier County's economic incentives, Arthrex proposed creating new jobs with annualized wages averaging \$59,580. The average private sector wage in effect at that time was \$38,719. Based on its expansion locations, the Program required Arthrex to create at least 30 new, eligible jobs. Arthrex intended to create 400 net new jobs by June 30, 2014 (Phase 1), 100 more new jobs by June 30, 2015 (Phase 2), and another 100 new jobs by June 30, 2016 (Phase 3), for a total of 600 net new jobs.

This review validated Arthrex' creation of 500 new jobs in Collier County in the period ending June 30, 2015. By meeting the terms of its Job Creation Investment Program Agreement, Arthrex has earned an economic incentive payment of \$333,334.34.

## Observations

### 1) Arthrex maintained the 400 eligible new jobs validated through June 30, 2014.

The Office of Business and Economic Development and the Clerk's Internal Audit Department reviewed Arthrex personnel and payroll records. This process established that Arthrex had maintained the 400 new jobs validated for 2014. Those jobs paid an average wage of \$70,128 during this review period, and continued to qualify for a Job Creation incentive payment. According to Collier County's Job Creation Investment Program Agreement with Arthrex, this incentive payment for 400 Phase 1 jobs is \$266,667.67.

### 2) Arthrex created 100 more eligible new jobs during 2015.

Business and Economic Development and Internal Audit also reviewed Arthrex personnel and payroll records for employees filling positions created between July 1, 2014, and June 30, 2015 (Phase 2 in the Job Creation Agreement). This process established that Arthrex had created 100 more new jobs during that period. Those jobs paid an average wage of \$74,840, and qualified for a Job Creation incentive payment. According to Collier County's Job Creation Investment Program Agreement with Arthrex, this incentive payment for 100 Phase 2 jobs is \$66,666.67.

## Management Response

*"I have reviewed the submitted Audit Report #2016-4 Arthrex regarding Arthrex Manufacturing's compliance with incentive criteria established by Job Creation Investment Program Agreement with Collier County, approved January 24, 2012. 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, 2015, as specified for Phase Two.*

*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 personnel for their support in the audit process.