



# **Internal Audit Department**

## **Audit Report 2017-12**

### **Advanced Broadband Infrastructure Investment Program**

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

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## TABLE OF CONTENTS

SUMMARY .....	2
OBJECTIVES .....	2
SCOPE .....	2
BACKGROUND .....	2
OBSERVATION .....	3
MANAGEMENT RESPONSE.....	4

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 October 27, 2017. County management provided that response on November 22, 2017.

## Summary

This audit engagement generated the following observations:

- Internal Audit reviewed the Advanced Broadband Infrastructure Investment Program application of Arthrex, Inc. and Arthrex Manufacturing, Inc. (Arthrex), for completeness. The legal description of the broadband installation's Collier County location was obtained, and timely payment of property taxes for that location was verified.
- A site visit was previously conducted to validate the number of new full-time jobs created, and the average wages of those new jobs.
- Internal Audit examined the invoice for the Advanced Broadband Infrastructure installation. Copies of Arthrex's payment of that invoice was also inspected. The total of the invoice and payment was \$ 1,010,844.31 thereby qualifying for the maximum payment allowed per the ordinance.

As a result of Arthrex's compliance with the requirements of the Advanced Broadband Infrastructure Investment Program, they qualify for the \$ 25,000 maximum amount of reimbursement allowed under the contract.

## Objectives

The objectives of the audit engagement were to validate program eligibility and to confirm the payment amount for which Arthrex has qualified.

## 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 Advanced Broadband Infrastructure Investment Program Agreement with Arthrex;
- Examining Arthrex, Inc.'s application to verify program eligibility;
- Confirming that Arthrex paid its property taxes in full and on time;
- Vouching Arthrex, Inc.'s jobs created and average wages to Job Creation workpapers; and
- Validating broadband infrastructure invoice and tracing that amount to proof of payment.

## Background

The Advanced Broadband Infrastructure Investment Program was a performance-based initiative authorized in Collier County Ordinance 2003-59, as fully amended by Ordinance 2005-56. The program provided for payments to local businesses “. . . to offset the costs associated with the installation or upgrade of advanced broadband infrastructure in commercial and industrial buildings to encourage the relocation and/or expansion of high-wage targeted industries.” The Ordinance describes the program's purpose to be, in part,

as “. . . *enhancing Collier County’s economic diversification efforts.*” Besides the installation or upgrade of advanced broadband infrastructure, the criteria for program eligibility also include minimum numbers of new jobs at specific wage levels, which vary by location in Collier County, and the full and timely payment annually of its ad valorem tax bill. Ordinance 2005-56 originally terminated this program on October 1, 2008, but on September 9, 2008, the BCC enacted Ordinance 2008-46, which extended the Advanced Broadband Infrastructure Investment Program to October 1, 2013.

The BCC approved an Advanced Broadband Infrastructure Investment program agreement with Arthrex on January 12, 2012, that would reimburse Arthrex the broadband installation or upgrade costs, up to a maximum of \$ 25,000. The payments would “. . . *be paid in equal installments over a three year period, at the beginning of each fiscal year, beginning in the fiscal year after the infrastructure improvements have been verified as complete by the County Manager or his designee.*” Arthrex agreed to pay its tax bill in full to the Tax Collector’s office annually on or before its due date, and, since they chose to install the broadband infrastructure at their Ave Maria site, to create and maintain 10 new full-time jobs for three years at an average annual wage of not less than \$ 45,793.

Staff from the Office of Business and Economic Development and Internal Audit verified the broadband equipment installation at Arthrex’s Ave Maria location on August 17, 2017. Testing validated that Arthrex completed this project in late 2013 at a total cost of \$ 1,010,844.31. Previous site visits validated the creation and maintenance of the required 10 new full-time jobs and that those jobs met or exceeded the required average annual wage. Testing also validated that Arthrex paid its ad valorem tax bill timely and in full during the three year period starting in 2014.

By meeting the terms of its Advanced Broadband Infrastructure Investment program agreement, Arthrex has met its obligation and qualifies to receive the maximum amount under the agreement of \$ 25,000.

## Observation

### 1) Lack of monitoring of the contract resulted in delayed payment.

The terms of payment under this agreement are clear: Arthrex would receive three equal installments “. . . *after the infrastructure improvements have been verified as complete by the County Manager or his designee.*” Therefore, until the Office of Business and Economic Development (OBED) verified the broadband infrastructure was completed, nothing could be done. No validation of jobs created, no validation of ad valorem taxes paid, and no validation of the total cost of the project. According to documentation supplied by Arthrex, this project was completed in late 2013, yet OBED staff did not verify the project as complete until August of 2017. This lack of monitoring means that instead of Arthrex receiving their first installment payment in 2014, they have been forced to wait until now. The delay in verification also meant that the determination of compliance with the terms of the contract was made all the more difficult. The Clerk, not wanting to further delay payment, went back to the original completion date and determined that all terms of the contract were met from that point forward. By validating the contract in this manner, the payment for the total amount of the agreement can now be made instead of starting with the first installment.

The OBED staff must be vigilant in monitoring contracts so as to not jeopardize the positive relationships that the BCC and other County staff have worked so hard to foster.

**Recommendations:**

- Designated responsible staff should be assigned to monitor all contract terms for completion thereby eliminating payment submission delays.

## **Management Response**

*“I have reviewed the submitted Audit Report #2017- 12 regarding Arthrex Inc. and Arthrex Manufacturing Inc.’s compliance with incentive criteria established by the Advanced Broadband Infrastructure Investment Program with Collier County, approved January 12, 2012. I concur with the audit Summary and consider Arthrex Inc. and Arthrex Manufacturing Inc. in compliance with the obligations within the Advanced Broadband Infrastructure Investment Program.*

*The County appreciates the input from internal audit staff in the Observation. The Office of Business & Economic Development has hired a part-time employee whose focus is on coordinating the County’s incentive agreements. Staff appreciates the cooperation in moving this incentive forward to this important Collier County employer.”*

Internal Audit gratefully acknowledges the cooperation of both Arthrex and the Office of Business and Economic Development’s management and staff for their support in the audit process.