



# **Internal Audit Department**

## **Audit Report 2018-1**

### **Capital Investment for Diversification (CID) Incentive 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 January 18, 2018. County management provided that response on January 22, 2018.

## Summary

This audit engagement generated the following observations regarding the Capital Investment for Diversification (CID) Incentive Program agreements with Arthrex, Inc., and Arthrex Manufacturing, Inc. (Arthrex):

- Testing for the period ended December 3, 2016, of the CID agreement entered into on May 26, 2015 (CID #1), confirmed compliance with all requirements and therefore is eligible to be paid the first installment under the agreement of \$41,153.45.
- Testing for the period ended December 3, 2017, of CID #1 confirmed compliance with all requirements and therefore is eligible to be paid the second installment under the agreement of \$41,153.45.
- Testing for the period ended December 12, 2017, of the CID agreement entered into on March 8, 2016 (CID #2), confirmed compliance with all requirements and therefore is eligible to be paid the first installment under the agreement of \$143,241.95.

Arthrex has complied with all obligations contained in both agreements and therefore is eligible to be paid a total payment of \$225,548.85.

## Objectives

The objective of the audit engagement was to validate that Arthrex complied with all requirements contained in both CID program agreements.

## Scope

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

- Reviewing applicable Florida Statutes;
- Reviewing applicable Board of County Commissioners (BCC) agenda items and related meeting minutes;
- Reviewing the BCC's Capital Investment for Diversification Incentive Program agreements with Arthrex;
- Validating Arthrex's payment of calculated impact fees;
- Checking the Tax Collector's records of tax payments; and
- Examining documentation of Arthrex offering and providing at least 50% of the employee's cost of health care coverage.

## Background

On March 24, 2015, the Board of County Commissioners (BCC) approved the Capital Investment for Diversification (CID) Incentive Program which was designed to increase Collier County's economic development competitiveness. The CID program was a "*proposal to advance Collier County's economy by encouraging development of facilities, space and suitable land for targeted businesses thereby enhancing the competitiveness in our economic development efforts.*" The BCC has previously created a series of performance based financial incentives that targeted new job creation, but according to the executive

summary presented at the March 24, 2015 meeting, “[w]hile these incentives provide necessary tools to induce the creation of sustainable, high wage jobs, a gap exists in the incentive program with respect to the area of private capital investment.” The CID program was intended to fill this gap by providing grant monies of up to 100% of the value of the transportation impact fees assessed and paid. In order to enhance and further expand the CID incentive, the BCC, on May 26, 2015, approved an amendment to the program to include not only the transportation impact fees, but also the impact fees for law enforcement, jail, government buildings, and EMS.

Eligibility for the program was dependent on the applicant being a targeted business as defined by the State of Florida’s Qualified Target Industry List, and was limited to, “new buildings or grey shell space within an existing building, that has yet to be issued a final end user certificate of occupancy. . . .” Once the BCC accepted the applicant into the program and all impact fees were prepaid, the following specific requirements are to be met annually to remain eligible for repayment:

- The facility must be operated as a Targeted Industry as evidenced by a certified County approved method;
- The employer must offer and pay at least 50% of the employee’s cost of health care coverage; and
- The project must remain current on all local tax liabilities.

Contingent upon meeting the above annual requirements, the CID incentive provides for four equal annual installments of the grant amount commencing on the first anniversary of the issuance of the Certificate of Occupancy for the facility.

The BCC has approved two CID program agreements with Arthrex; one on May 26, 2015, (CID #1) in an amount up to \$164,613.82 and one on March 8, 2016, (CID #2) in an amount up to \$572,967.80. The anniversary of the issuance of the Certificate of Occupancy for CID #1 is December 3 and for CID #2 is December 12.

Testing done by staff from both the Office of Business and Economic Development and Internal Audit verified the following:

- Testing for the period ended December 3, 2016, of CID #1 confirmed compliance with all requirements and therefore is eligible to be paid the first installment under the agreement of \$41,153.45.
- Testing for the period ended December 3, 2017, of CID #1 confirmed compliance with all requirements and therefore is eligible to be paid the second installment under the agreement of \$41,153.45.
- Testing for the period ended December 12, 2017, of CID #2 confirmed compliance with all requirements and therefore is eligible to be paid the first installment under the agreement of \$143,241.95.

By meeting the annual requirements of its CID #1 and CID #2 program agreements, Arthrex has qualified to receive a total payment in the amount of \$225,548.85.

## Management Response

*“I have reviewed the submitted Audit Report #2018-1 regarding Arthrex Inc. and Arthrex Manufacturing Inc.’s compliance with incentive criteria established by the Capital Investment for Diversification Incentive Program with Collier County, for two agreements approved May 26, 2015 and March 8, 2016. I concur with the audit summary and consider Arthrex Inc. and Arthrex Manufacturing Inc. in compliance with the obligations within the Capital Investment for Diversification Program.”*

*Staff appreciates the professional and pragmatic approach exhibited by the Internal Audit Department for this performance validation process.”*

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.