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**Clerk of the Circuit Court
and Comptroller**

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Internal Audit Department

**Audit Report
2019-8**

**Transfer of EII Assets to
Collier County Control as of
July 1, 2019**

**Issued:
December 23, 2019
Updated:
March 15, 2020**

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, 5th 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.

Prepared by: Mark Pasek, Internal Auditor

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Cc: Crystal K. Kinzel, Clerk of the Circuit Court & Comptroller
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Table of Contents

Summary	3
Objective	4
Scope	4
Methodology.....	4
Background	5
Observations	5
Conclusion	8
Observations and Recommendations	9
Missing and Unobserved Items	9
Disposal of Nonexpendable Property	10
Acknowledgements	11
Appendix I – Executive Summary June 25, 2019	12
Appendix II – Acknowledgement of Transfer by DEO	15

Summary

At the April 23, 2019 Collier County Board of County Commissioners meeting, the Board directed county staff to initiate the separation of the Collier County Accelerator Project, consisting of the Naples Accelerator and the Florida Culinary Accelerator @ Immokalee (FCA@I), from Economic Incubators, Inc. (EII). County Staff assumed operations effective July 1, 2019.

Total # Transactions	Total Amount of Transactions	Questioned Costs	Taxpayer Savings	Description	Total # Observations	# Open Observations
200	\$ 1,827,177.15	\$ 898.01	\$ -	Number of assets	2	0

200 line items were identified in the Asset and Inventory Summaries totaling \$1,812,970.74, excluding duplicates and assets located at FGCU Runway. Four (4) items were missing, resulting in 196 line items positively identified.

Assets and Items	Quantity	Acquisition Value
Assets and Items Identified by Line Item	200	\$ 1,812,970.74
Less: Missing Items (Table Below)	4	\$ (898.01)
Total	196	\$ 1,812,072.73

The (4) missing items were assigned to the Naples Accelerator. All assets and items of the FCA@I were observed without exception. The table below provides details of the (4) missing items.

Missing Items (4)	Location	Acquisition Date	Acquisition Value
LG 24" Display	Naples Accelerator	4/22/2015	\$ 149.99
LG 32" Display	Naples Accelerator	4/22/2015	\$ 211.00
Samsung 40" Display	Naples Accelerator	4/22/2015	\$ 349.99
Brylee Café Height Stool	Naples Accelerator	9/14/2015	\$ 187.03
Total Missing Items (4)			\$ 898.01

A \$15,104.42 adjustment was included to account for multiple assets and items incorrectly recorded on EII's Balance Sheet prior to the June 4, 2019 inventory walk through; this increased the total acquisition value of the observed assets and items to \$1,827,177.15.

Assets and Items	Quantity	Acquisition Value
Net Assets and Items Observed	196	\$ 1,812,072.73
Plus: Adjustment for Quantity (see page 5)	n/a	\$ 15,104.42
Total	196	\$ 1,827,177.15

Clerk staff and County staff observed Assets, Furniture & Fixtures, and Leasehold Improvements purchased for \$1,827,177.15 that appeared in good condition and working order as of June 5, 2019. This report was updated for an acknowledgement of the transfer received from the Florida Department of Economic Opportunity (DEO) before this report was published to the Clerk's website.

Objective

The objective of this audit was to locate all known assets purchased for the operation of the accelerator projects and in the possession of Economic Incubators, Inc., the county's contracted vendor since inception, prior to Collier County assuming operational control of the accelerators on July 1, 2019. Subsequently, we wanted to ensure that the SAP records reflected the accurate asset values as of July 1, 2019.

Scope

The list of assets and inventory was assembled from EII grant reporting documents, EII reimbursement requests to Collier County, EII's Audited Financial Statements and Disclosures, and correspondence with EII's Management and Board of Directors. This list includes capitalized leasehold improvements totaling \$1,113,436.99 of the \$1,827,177.15 that was observed.

The asset list excludes approximately \$25,998 of assets and items purchased under Grant #SL025 that are part of the Florida Gulf Coast University Runway Program. EII's other purchases of additional furniture and fixtures, with either Business Income or Private Contributions, were to be inventoried separately by EII's Management and Board of Directors in accordance with the dissolution of the entity.

The asset and inventory audit was conducted on Tuesday June 4, 2019 beginning at 9:00 am. Clerk's staff met with County staff at both the Naples Accelerator and the Florida Culinary Accelerator @ Immokalee, concurrently. EII staff was present at both locations to assist in locating items.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Reviewed CMA #5809 – Managing Personal Property and Consumable Supplies
- Reviewed Florida DEO and USDA Grant Agreements
- Compiled a list of items to be verified before the accelerators transition to County control
- Clerk's Internal Audit and Accounting staff met with County staff and EII staff to validate the accuracy and completeness of the list prior to the walk through on June 4, 2019
- Conducted a walk-through of the Naples Accelerator and the Florida Culinary Accelerator @ Immokalee, accompanied by County staff and EII staff
- Reviewed and compiled the observations and noted discrepancies
- Considered the risk of fraud, waste, and abuse
- Reconciled the listing of assets maintained in the SAP database after entry by the Clerk's Finance staff
- Considered the accounting treatment employed by the Clerk's Finance department.

Background

At the April 23, 2019 Regular Meeting of the Collier County Board of County Commissioners (BCC), the Commissioners voted unanimously to start the process of separating EII from the county's accelerator program.

EII received Grant funding from Federal and State agencies in addition to funding from Collier County. Grant funds were used, in part, to purchase furniture, fixtures, and capital assets to carry out program objectives. An inventory of the furniture, fixtures, and capital assets acquired by EII was needed prior to the County assuming operational control of the accelerator projects.

Subsequent to our inventory observation, the BCC voted to accept the inventory as detailed in Appendix I, and to terminate the vendor relationship with EII as of June 30, 2019.

Observations

The total of 195 line items with an acquisition value of \$1,825,298.15 were observed on June 4, 2019. One on the missing items, a laptop computer, was located by County staff after the completion of the inventory walk through. The laptop computer had an acquisition value of \$1,879.00 in FY2017. The final total is 196 line items with an acquisition value of \$1,827,177.15, which were purchased from the following Grants and County sources:

Grant Funding Sources	Acquisition Costs
Florida DEO Grant #SL007	\$ 360,123.11
Florida DEO Grant #SL025 + USDA-RBDG	\$ 223,960.00
Florida DEO Grant #SL025	\$ 1,208,670.96
FY2018 Agreement – Exhibit B1 to EII Agreement	\$ 19,318.66
Adjustment for Quantity (see page 5)	\$ 15,104.42
Total	\$ 1,827,177.15

Assets and Items Classification

Classification of Line Items	Acquisition Costs
1. Assets Booked by Collier County Prior to June 30, 2019	\$ 252,307.42
2. Assets Booked by Collier County on July 1, 2019	\$ 1,037,697.62
3. Items (non assets) accepted from EII on July 1, 2019	\$ 388,844.60
4. Naples Leasehold Improvements Not Booked by Collier County	\$ 133,223.09
5. Adjustment for Quantity (see page 5)	\$ 15,104.42
Total	\$ 1,827,177.15

1. Assets Booked by Collier County Prior to June 30, 2019

Assets purchased with grant funding where Collier County was the Recipient were recorded on Collier County's Balance Sheet prior to June 30, 2019. Collier County booked \$28,347.42 in assets purchased with DEO Grant #SL007 and \$223,960.00 in assets purchased with USDA-RBDG grant funds in combination with DEO Grant #SL025; totaling \$252,307.42.

2. Assets Booked by Collier County on July 1, 2019

Assets purchased with grant funding where EII was the Recipient were recorded on EII's Balance Sheet. These assets were transferred to Collier County on July 1, 2019.

Generally Accepted Accounting Principles (GAAP) require that assets acquired be recorded at the current fair market value. For some assets, there are good sources of an objective fair market value, such as a Kelly Blue Book estimate for vehicles. In the case of the assets acquired from EII, such valuations are not readily available, and the Clerk's staff has chosen to estimate the fair market value based on the net book value at the time of acquisition, for the following reasons:

- The assets were viewed at the time of the inventory, and found not to be impaired.
- The cost of an appraisal would not provide a meaningful benefit to the taxpayer.
- The estimated fair market value of the assets acquired from EII are not material to the County's financial statements.
- The Clerk's staff reviewed EII's schedule of assets and depreciation, and made some minor corrections as needed. The Clerk's staff believes the remaining net book values were a reasonable estimate of the current fair market values.

These value assumptions will be reviewed by the County's external auditors for fiscal 2019. The book values assumed are all estimated amounts, and do not relate to actual cash outlays. Accordingly, we would not take exception to Finance's estimate of fair market value based on the net book value at the time of acquisition, provided the external auditors do not object to this treatment.

EII Assets Transferred to Collier County	
Capital Assets – Acquisition Cost	\$ 1,037,697.62
Less: Adjustment to Fair Market Value	\$ (235,592.21)
Estimated Fair Market Value on July 1, 2019	\$ 802,105.41

3. Items (non-assets) accepted from EII on July 1, 2019

All items that did not meet the capitalization threshold were expensed in EII's financial statements. These items, totaling \$388,844.60, have been transferred to the County's control.

4. Naples Accelerator Leasehold Improvements not booked by Collier County

Leasehold Improvements to the Naples Accelerator were purchased with funding from Grant #SL025, where EII was the Recipient, totaling \$133,223.09. These Leasehold Improvements were not booked by Collier County because of the impending lease expiration date in 2020.

It is worth noting that the Grantor Agency, Florida DEO, retains a security interest in these assets until five years after purchase or completion, which will be in 2022. A copy of DEO's acknowledgement of the transfer of assets is shown at Appendix II.

5. Adjustment

The adjustment entry corrects a discrepancy in EII's reported assets prior to the inventory walk through on June 4, 2019. Four line items on EII's inventory list contained multiple units, but only reported the single per unit acquisition cost. The adjustment increases the total acquisition costs for all units of the observed assets and items by \$15,104.42, as shown in the following table.

Adjustment to EII's Reported Assets					
Description	Acquisition Value Per Unit	Amount Reported by EII, Single Unit	Actual Quantity	Actual Acquisition Value of All Units	Variance
Steelcase Brody Chair - Orange (x2)	\$2,076.14	\$2,076.14	2	\$4,152.28	\$2,076.14
Steelcase Brody Chair - Red (x2)	\$2,076.14	\$2,076.14	2	\$4,152.28	\$2,076.14
Steelcase Brody Chair - Blue (x2)	\$2,076.14	\$2,076.14	2	\$4,152.28	\$2,076.14
Monark Refrigerator - (x8)	\$1,268.00	\$1,268.00	8	\$10,144.00	\$8,876.00
Total		\$7,496.42	14	\$22,600.84	\$15,104.42

Additional Observations

1. Security Interests Related to Grant Funds Used for Leasehold Improvements

Pursuant to Florida Statute section 287.05805, grant funding used to make improvements to real property is contingent upon the Grantee granting DEO a security interest in the property in the amount of funding used for a period of five (5) years.

Funding from Grant #SL025 was used to make Leasehold Improvements to the Naples Accelerator, The Florida Culinary Accelerator @ Immokalee, and Woodstock's Micro Market. The security interest will expire five years from the dates of completion for each of these projects.

- a. Leasehold Improvements (\$133,223.09 acquisition value) to the Naples Accelerator were booked by EII upon completion in 2017. However, these assets were not booked by

Collier County at transition on July 1, 2019 because of the impending lease expiration date in 2020. The Completion Date is estimated to be June 2017, therefore DEO's 5 year security interest would expire approximately June 2022.

b. Leasehold Improvements (\$980,213.90 acquisition value) to the FCA@I were booked by EII at the time of construction in 2017. Collier County booked these leasehold improvements on July 1, 2019, as the County has assumed this lease. The earliest possible Completion Date would be June 30, 2017, with the 5 year security interest expiring in approximately June 2022.

c. Construction of Woodstock's Micro Market was paid for with funding from Grant SL025. However, none of the construction costs were capitalized as Leasehold Improvements. Completion Date is estimated to be March 2017 with DEO's 5 year security interest, if any, expiring in March 2022.

2. DEO Approval of Asset Transfer Was Subsequently Received

Under the terms of the Grant(s), the title to the assets purchased by the grants are retained by the grantor agency unless specifically released by the grantor.

7. Title (ownership) to all nonexpendable property acquired with funds from this Agreement shall be vested in DEO and said property shall be transferred to DEO upon completion or termination of the Agreement unless otherwise authorized in writing by DEO.

The final sign-off on the asset transfer from the Grantor Agency, Florida DEO, was received in February 2020 and it is included at Appendix II.

Conclusion

Collier County assumed control of capital assets with an estimated Fair Market Value of \$802,105.41. All assets were present at the time of our observations, with the exception of a laptop computer later discovered. County Management, as the custodian of these assets, will need to appoint Property Officers who will be responsible for maintaining the perpetual inventory and performing a physical count at least annually. It is management's responsibility to understand and implement proper controls to limit the risk of fraud and misappropriation of county-controlled assets.

Observations and Recommendations

Missing and Unobserved Items

Finding Risk: Low

Observations

Issue:

Five items were not observed at the assigned location on June 4, 2019. One item was located after the inventory walk through was completed.

Effect:

The four unobserved items have a total acquisition value of \$898.01.

Cause:

(1) Minor Tangible Item was destroyed, (2) Minor Tangible Items were scrapped, (1) Minor Tangible Item is missing, and (1) item was not observed on June 4, 2019, but was located and observed by OBED staff on June 5, 2019 and subsequently reported to Internal Audit.

Discussion and Background:

Five items were not observed or were missing from the Naples Accelerator on June 4, 2019. All items assigned to the Florida Culinary Accelerator @ Immokalee were observed without exception. EII was the custodian of assets and items purchased with grant funds through Collier County in addition to assets and items purchased with revenue generated from EII's operation of the accelerators. EII did not have policies or procedures regarding the disposition of assets or tangible items. Without a specific policy, Collier County's CMA #5809 – Managing Personal Property and Consumable Supplies, should have been followed.

Recommendations:

Regarding the (1) Minor Tangible Item destroyed and (2) Minor Tangible Items that were scrapped, a Fixed Asset Transaction Form recording the dates and circumstances of the destruction should have been completed by the Director of OBED in accordance with CMA #5809.

Per CMA #5809, the custodian shall notify the Capital Assets Office of the discrepancy (missing items) and shall complete the search process within 30 days of identifying the discrepancy. The custodian shall subsequently complete the Collier County Unaccounted for Property form and submit it to the Capital Assets Office with other inventory paperwork.

These missing items were adjusted in the records when assumed, and no further action is necessary.

Disposal of Nonexpendable Property

Finding Risk: Low

Observations

Issue:

The Director of OBED disposed of (4) items purchased with Grant #SL007 funding without providing notice to Florida DEO, the grantor agency.

Effect:

The preliminary inventory count was incorrect and the Director of OBED failed to notify Internal Audit and County staff of the missing items. DEO had not been officially notified of the destroyed or disposed items.

Cause:

The vendor, EII, did not have sufficient policies and procedures in place.

Discussion and Background:

3. At no time shall Grantee dispose of nonexpendable property purchased under this Agreement for these services without the written permission of and in accordance with instructions from DEO.
4. Immediately upon discovery, Grantee shall notify DEO, in writing, of any property loss with the date and reason(s) for the loss.

The above clip is from Grant #SL007, and all four missing items acquired for \$898.01 were purchased through this grant. During the Inventory Audit on June 4, 2019, the Director of OBED was asked about the missing items. He recalled that the items were destroyed by a water leak or were left behind in the previous office. He further stated that he did not make any notes or file any notices to the County (or DEO) when the items were disposed.

Recommendations:

County staff should make proper notification to Grantor Agencies regarding the disposal of nonexpendable property purchased with grant funding. These items were below the capitalization policy, so procedures beyond those in the annual inventory of assets are required.

Response:

County staff appreciates the opportunity to review Internal Audit Department Audit Report 2019-8, as well as Clerk staff's assistance in accounting for the inventory being transferred following the termination of our contract vendor, Economic Incubators, Inc.

In February 2020, the Department of Economic Opportunity acknowledged the County's continued ownership of nonexpendable property under Grant Agreement SL007 and receipt by the County of nonexpendable property purchased by EII under Grant Agreement SL025.

Acknowledgements

We would like to thank the Director of Corporate Business Operations and the management and staff of the Office of Business and Economic Development for their courteous and prompt assistance during our audit.

Appendix I

EXECUTIVE SUMMARY

Recommendation that the Board of County Commissioners end the FY 19 agreement with Economic Incubators, Inc. to operate the Collier County Accelerator Project, and accept the transfer of assets and liabilities associated with the project.

OBJECTIVE: To separate the Collier County Accelerator Project, consisting of the Naples Accelerator and Culinary Accelerator at Immokalee, from Economic Incubators, Inc. (EII) and assume operations with County staff.

CONSIDERATIONS: At the April 23, 2019, Collier County Board of County Commissioners meeting, the Board directed county staff to initiate the separation of the Collier County Accelerator Project, consisting of the Naples Accelerator and Culinary Accelerator at Immokalee, from Economic Incubators, Inc. (EII) - a non-profit organization that has operated the facilities under a public-private partnership since 2014.

Collier County staff has worked with EII, and other partners, to establish a long-term action plan for the Naples Accelerator and Culinary Accelerator at Immokalee to be successful and thrive under County operation beginning July 1, 2019.

An inventory audit of all known assets owned or controlled by EII was conducted on June 4, 2019, by two teams at both EII locations. The Clerk's Internal Audit and Accounting staff worked with County staff and EII staff to locate and document assets and other items purchased with Grant funding and/or County funding.

212-line items were identified from Grant reporting documents, EII reimbursement requests to Collier County, and from EII's audited financial statements. On June 4, 2019, (3) items were identified as being duplicates, (9) items were not observed because those items are assigned to Florida Gulf Coast University, and (4) items were missing or unobserved. A total of 195 items with an acquisition value of \$1,810,193.73 were positively identified.

Total Line Items Captured	212	\$ 1,848,279.05
Less: Duplicates	3	\$ (9,309.77)
Less: Assets Located at FGCU	9	\$ (25,998.54)
Less: Missing/Unobserved	4	\$ (898.01)
Total	196	\$ 1,812,072.73

The (4) missing or unobserved items are listed below. All (4) items are assigned to the Naples Accelerator.

Less: Missing Items (4)	Assigned	Purchase Price
LG 24" Display	Naples Accelerator	\$149.99
LG 32" Display	Naples Accelerator	\$211.00
Samsung 40" Display	Naples Accelerator	\$349.99
Brylee Café Height Stool	Naples Accelerator	\$187.03
Total Missing Items		<u>\$898.01</u>

A detailed list of these inventories can be found in the attached exhibits to this Executive Summary.

County staff requested an inventory of EII’s liabilities at this point in time and was presented with the attached Exhibit. EII’s projected liabilities through July 1, 2019 are estimated at \$81,733.70. The attached Exhibit also projects sufficient cash flow for EII to satisfy these liabilities prior to County assumption of the operation.

Staff is also working with the Florida Department of Economic Opportunity (DEO) to transfer two existing grants that funded the Accelerator project to reassign responsibility of these grants to the County for continued operation of the facilities. A grant of \$112,000 from the U.S. Department of Agriculture (USDA) was also used for the purchase of kitchen equipment at the Culinary Accelerator at Immokalee. As the will continue for their original uses, grants can be assumed with relatively low risk.

The attached agreement outlines the transfer of the inventoried assets that were purchased by EII throughout the life of the Accelerator Project to the County, and accepts the liabilities associated with the project. At the June 19, 2019 EII Executive Committee meeting, EII Board members voted unanimously to accept the agreement.

County staff will assume operation of the Naples Accelerator and Culinary Accelerator at Immokalee on July 1. Operations at the Naples Accelerator will be assumed by existing Business and Economic Development full-time and temporary labor staff. Staff at the Culinary Accelerator were attained by shifting existing vacancies within the County Manager’s Office to staff the facility. Both Accelerators will benefit from a centrally-managed finance and accounting operation.

FISCAL IMPACT: Funding for the Accelerator Project is appropriated from Economic Development Program Fund 007 with revenue received from the local government share of gaming proceeds pursuant to the agreement between the State of Florida and the Seminole Tribe. The projected FY20 budget for the Accelerator Project is \$556,000.

GROWTH MANAGEMENT IMPACT: This request is consistent with Objective 3 of the Economic Element of the Collier County Growth Management Plan which states: “Collier County will support programs which are designed to promote and encourage the recruitment of new industry as well as the expansion and retention of existing industries in order to diversify the County’s economic base.”

LEGAL CONSIDERATIONS: This item is approved for form and legality and requires a majority vote for Board action. -

RECOMMENDATION: That the Board of County Commissioners end the FY 19 agreement with Economic Incubators, Inc. to operate the Collier County Accelerator Project, and accept the transfer of assets and liabilities associated with the project.

Prepared by: Sean Callahan, Executive Director, Corporate Business Operations

Appendix II

Ron DeSantis
GOVERNOR



Ken Lawson
EXECUTIVE DIRECTOR

February 13, 2020

Mr. Sean Callahan
Executive Director of Corporate Business Operations
Office of The Collier County Board of County Commissioners
3299 Tamiami Trail E. Building F, Suite 202
Naples, Florida 34111

RE: Equipment

Dear Mr. Callahan:

On June 5, 2019, the Department of Economic Opportunity (DEO) received a request from the Collier County Board of County Commissioners (County) to reconcile the transfer of nonexpendable property purchased under Grant Agreement SL007 (SL007) between DEO and the County, and Grant Agreement SL025 (SL025) between DEO and Economic Incubators, Inc. (EII).

It has been communicated to DEO that the County and EII have concluded their business relationship with respect to the County's business accelerator program, and that the County has taken possession of nonexpendable property purchased by EII under SL025. It has been further communicated to DEO that EII has relinquished its rights in and to the nonexpendable property to the benefit of the County.

Pursuant to paragraph I.Q.7. of SL007, upon termination DEO receives title to all nonexpendable property acquired with funds provided under SL007. Pursuant to section 10 of the scope of work to SL007, DEO previously authorized the County to retain ownership of nonexpendable property purchased under SL007.

Pursuant to paragraph I.P.7. of SL025, upon termination DEO receives title to all nonexpendable property acquired with funds provided under SL025. Pursuant to section 13 of the scope of work to SL025, DEO previously authorized EII to retain ownership of nonexpendable property purchased under SL025. EII was required to provide DEO a right of first refusal prior to the disposition of any nonexpendable property. EII did not provide notice to DEO to exercise DEO's right of first refusal prior to releasing the nonexpendable property to the County; however, DEO waives this condition and ratifies the disposition of the subject property to the County, as

Florida Department of Economic Opportunity | Caldwell Building | 107 E. Madison Street | Tallahassee, FL 32399
850.245.7105 | www.FloridaJobs.org
www.twitter.com/FLDEO | www.facebook.com/FLDEO

An equal opportunity employer/program. Auxiliary aids and service are available upon request to individuals with disabilities. All voice telephone numbers on this document may be reached by persons using TTY/TTD equipment via the Florida Relay Service at 711.

Mr. Sean Callahan
Office of The Collier County
Board of Commissioners
February 13, 2020
Page 2

set forth more specifically in the board materials of agenda Item No. 16.F.7.a of the July 9, 2019 meeting of the County's Board of County Commissioners.

This letter acknowledges the County's continued ownership of nonexpendable property purchased under SL007. This letter further acknowledges receipt by the County of nonexpendable property purchased by EII under SL025. Finally, this letter releases the County from any reporting requirements which survived the respective expirations of SL007 and SL025.

This letter does not relieve the County of any public record, record keeping, or audit obligations otherwise required by law.

If you have any further questions as you transition operations or wish to discuss this further, please contact Liz Miller, Contract Manager for DEO, at (850) 717-8968 or by email at Liz.Miller@deo.myflorida.com.

Sincerely,



Jason Rojas,
Director, Strategic Business Development