

WHAT COULD GO WRANG?

A TEN MINUTE CASE STUDY



PRESENTER

- Tim Parks, CIA, CIG, CIGI
- Chief Internal Audit Officer/Inspector General
- Lee County Clerk of Court & Comptroller

PRESENTATION

- Case study of Economic Development Office (EDO) as of 2013
 - ✓ EDO Audit (Background)
 - ✓ What could go wrong?
 - ✓ What went wrong?
 - ✓ Effects
 - ✓ What could go right?
 - ✓ Assurance that it is fixed
 - ✓ Questions?

LEE COUNTY EDO AUDIT: AUGUST 2013

- *“The Lee County Economic Development Office (EDO) has multiple responsibilities to promote, coordinate and, monitor economic development, recruitment, marketing, financial, and administrative functions in Lee County.”*
- Included in the 2013 Internal Audit Plan

LEE COUNTY EDO AUDIT: AUGUST 2013

- *“Conclusions*
 - *The Lee County EDO incentive programs, job creation, and economic impact from 1996 to 2013, has resulted in **5,122 new jobs and an economic impact totaling \$1.078 billion**. The success of this program can be attributed to the incentive grants of \$35.2 million, the dedication of EDO management and employees for their recruitment, marketing services, and coordination with the IDA, HC, HF, and State of Florida.*
 - *The financial incentives for recruiting strategic targets (FIRST) program issued 6 grants totaling \$18.3 million from 2008 to 2012. Grant agreements included commitments to create 1,316 new jobs between 2008 and 2015. There were **532 jobs created through 2012**, and 2 of the 6 companies have met or exceeded their commitment.”*

WHAT COULD GO WRONG? (W.C.G.W.)

*“A \$5 million FIRST grant approved by the BOCC in 2010 was based on the grantee, VR lab’s, commitment that they would construct a headquarters building and manufacturing plant in Lee County and **create 208 jobs by 2015. The company has employed only 8 employees, 32 short of their 2012 commitment. The manufacturing plant is not operational.** The due diligence test of VR lab’s qualifying financial background was not provided to the auditor. It is recommended that management consider independent due diligence tests be required of every potential grantee.”*

W.C.G.W. – FUNDING REQUESTS

- The company initially tried to obtain funding for Industrial Development Revenue Bonds (IDRBs), through the IDA, in the amount of **\$42 million. The company did not have adequate financial standing and collateral to qualify.**
- They had to settle for a \$5 million grant.

W.C.G.W. - DISTRIBUTIONS

<u>Grant</u>	<u>Awarded</u>	<u>Disbursed</u>	<u>Total Jobs Pledged/ Created</u>	<u>Cost per Job Pledged/ Created</u>
Paramount Transp. Logistics	\$300,000	\$300,000	100/116	\$3,000/\$2,586
Source Interlink	\$1,000,000	\$250,000	350/51	\$2,857/\$19,608
Algenol Biofuels, Inc.	\$10,000,000	\$10,000,000	108/96	\$92,593/\$104,167
Gartner	\$1,000,000	\$1,000,000	400/94	\$2,500/\$10,638
VR Labs	\$5,000,000	\$4,694,548	208/08	\$24,038/\$555,556
Chico's FAS, Inc.	\$1,000,000	\$1,000,000	150/167	\$20,333/\$18,263
Total	\$18,300,000	\$17,244,548	1316/532	

<u>Date of Check</u>	<u>Check #</u>	<u>Check Amount</u>
12/6/2011	738881	\$1,617,060.16
3/13/2012	746692	\$1,127,051.97
3/27/2012	747788	\$ 552,446.75
5/22/2012	752313	\$ 681,302.84
6/26/2012	755027	\$ 716,686.32
Total		\$4,694,548.04

WHAT WENT WRONG?

- Newly formed company with no prior business income or operations records
- Did not qualify for \$42 million Industrial Development Bond
- No “due diligence” information provided to auditor
- Grant conditions not met (No jobs)
- Business not operational
- Not paying bills with distributed funds

MANAGEMENT RESPONSE – WHAT WENT WRONG

- “limited due diligence”
- “Company start-up”
- “VR labs grant is problematic”
- “...Evaluating policies and procedures...”
- “...the final work product will become part of Lee County’s administrative code and program guidelines.”

EFFECTS

- Turned over to FBI for investigation (circa 2013)
- Three Principals of VR labs prosecuted (in 2019)
- Convicted of various conspiracy charges as of February 27, 2019
- One owner committed suicide March 2, 2019
- Two principals were sentenced to prison May 20, 2019

EFFECTS – COLLATERAL DAMAGE

- EDO Director – Terminated employment
- EDO Marketing Manager – Terminated employment
- EDO restructured
- Four EDO Support Staff – Terminated employment
- Four employees sued Lee County for unlawful termination
- Unknown number of unpaid contractors
- Nine years of drama

WHAT COULD GO RIGHT?

- Due diligence
- Standards for decision making
- Financial audits
- Be wary of funding start-up companies

MAKING IT RIGHT

- *“We changed the policy a few years ago,” Pendergrass said. “So if we do give any incentives to companies, we do get reimbursed. There’s a bond that’s held, and there’s also a set that goes back to the county. We’re actually doing business with a legitimate company like Hertz for example, so they actually exist.”* Other aspects of the new rules include financial audits and background checks of company history.
(WINK news February 7, 2019)

ASSURANCE

- EDO audit was started this week to provide assurance that there are controls in place to prevent a reoccurrence.

QUESTIONS?

