



**DIVISION OF INSPECTOR GENERAL**  
Ken Burke, CPA  
Clerk of the Circuit Court and Comptroller  
Pinellas County, Florida



# AUDIT OF ECONOMIC DEVELOPMENT EMPLOYMENT SITES PROGRAM



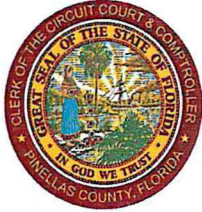
Neighborly  
Software



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REPORT NO. 2024-17  
SEPTEMBER 18, 2024



## Ken Burke, CPA

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September 18, 2024

Dr. Cynthia Johnson, Director, Department of Economic Development

We have conducted an audit of the Economic Development Employment Sites Program at the request of the County Administrator.

Opportunities for Improvement are presented in this report.

We appreciate the cooperation shown by the staff within the Department of Economic Development during the course of this review.

Respectfully Submitted,

*Melissa Dondero*

Melissa Dondero  
Inspector General/Chief Audit Executive

Approved:

Ken Burke, CPA\*  
Clerk of the Circuit Court and Comptroller  
Ex Officio County Auditor  
\*Regulated by the State of Florida

cc: Barry Burton, County Administrator  
Jill Silverboard, Deputy County Administrator/Chief of Staff  
Cindy Margiotta, Division Director, Department of Economic Development  
Teresa Brydon, Business Redevelopment Manager, Department of Economic Development



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# INTRODUCTION

## *Abbreviations*

<b>BCC</b>	Board of County Commissioners
<b>County</b>	Pinellas County
<b>Department</b>	Department of Economic Development
<b>Guidelines</b>	Penny IV Pinellas Guidelines
<b>Program</b>	Employment Sites Program

## ***Executive Summary***

As part of our annual audit plan, we conducted an audit of the Employment Sites Program (Program) within the Department of Economic Development (Department) for the period of May 1, 2023, through April 30, 2024.

The objectives of the audit were to:

1. Determine whether Program processes are efficient, documented, and maintained by Department management.
2. Determine whether Program documentation is completed, reviewed, and maintained by the Department.
3. Determine whether project approvals are obtained from Pinellas County (County) officials.
4. Determine whether payments requested by and disbursed to the grantee are accurate and appropriate.

Overall, we determined adequate controls are in place for the maintenance of Program documentation, project approvals from the County Administrator and BCC, and accuracy of disbursed payments to developers/business owners .

However, we noted two issues that impact the effectiveness of the Program's process to ensure all contractual requirements and County responsibilities are satisfied. We identified issues regarding the lack of policies and procedures and project scoring methodology.

In the review of the Department's policies and procedures, we determined clawback procedures were not created to detail the process regarding default payments due in the event of a developer and/or business owner's breach of contract. The clawback process includes, but is not limited to, the methods to determine contractual breaches, notifications to applicable County officials, and facilitation of applicable payments that should be recovered by the County.

Project contracts also require the developer/business owner to submit an annual report to the Department for the first 10 years upon completion of the project. The Department's policies and procedures do not include the process in place detailing the retrieval, review, and distribution of annual reports obtained from the developer/business owner.

Department management reviews and scores projects in 11 categories based on the preferred principles stated in the Penny IV Pinellas Guidelines (Guidelines). However, a formal scoring methodology was not created detailing the Department's scoring approach, analysis, evaluation, and justification for recommending a project based on the numerical value determined during the scoring process. In addition, the Guidelines do not require nor detail scoring values that Program projects must achieve in order to be recommended by the Department and/or approved by the BCC.

# **Background**

## **Economic Development**

The Pinellas County (County) Department of Economic Development (Department) fosters a pro-business climate that focuses on business retention, expansion, and attraction of targeted industries, entrepreneurial development, and redevelopment. The Department commits to retaining and attracting high-wage jobs, supporting small businesses, and building a resilient, equitable economy and strong workforce. The Department works with existing businesses to encourage expansion and seeks to attract new companies to Central Florida's Gulf Coast. Through investment tools, professional courses, business counseling sessions, trade missions to open new markets, as well as local, regional, and statewide partnerships, the Department strives to increase business creation and growth within the County.



The Department works with existing businesses to encourage expansion and seeks to attract new companies to Central Florida's Gulf Coast. Through investment tools, professional courses, business counseling sessions, trade missions to open new markets, as well as local, regional, and statewide partnerships, the Department strives to increase business creation and growth within the County.

## **Employment Sites Program**

The County instituted the Employment Sites Program (Program) through the fourth iteration of Penny for Pinellas. This is the first time that funds from this revenue source have been associated with Department initiatives. A total of 4.15% of the net proceeds of the Penny for Pinellas funds are dedicated to countywide investments in Department Capital Projects. Over ten years, it is anticipated that approximately \$93 Million will be available for these projects.

The County's Program supports the construction and redevelopment of industrial and office buildings to provide growth opportunities for existing businesses and attract new target industry employers to the County. Target industries are identified as export-oriented industries with a majority of their products or services sold outside of the County (preferably outside of Florida) and whose average annual wages are above the County average yearly wage.



Applications are accepted from developers and County businesses that present proposals that demonstrate the capacity to successfully develop, market, and manage the proposed project following all Local, County, State, and Federal laws. For this program, allowable capital expenditures related to development include:

- Site preparation
- Vertical construction
- Infrastructure development

Program funding is awarded as a grant. The amount of funding awarded to applicants is typically between 10-14% of the total project budget and can only be used towards capital expenditures

related to the construction or significant rehabilitation of an office, industrial, or flex industrial building located in the County. All awarded grants include mandatory performance requirements, and reimbursement of awarded funds is required if performance requirements are not achieved.

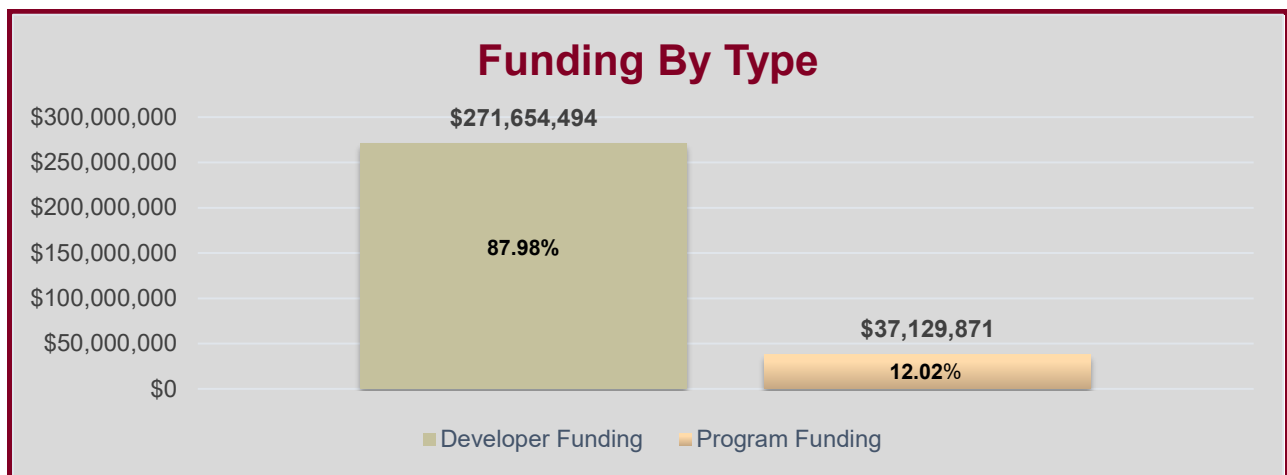
The Department is responsible for conducting the following processes for each application received from developers/business owners:

- Project application review
- Project scoring
- County Administrator and Board of County Commissioners (BCC) approval
- Approval to release contractual payments
- Follow-up documentation for completed projects

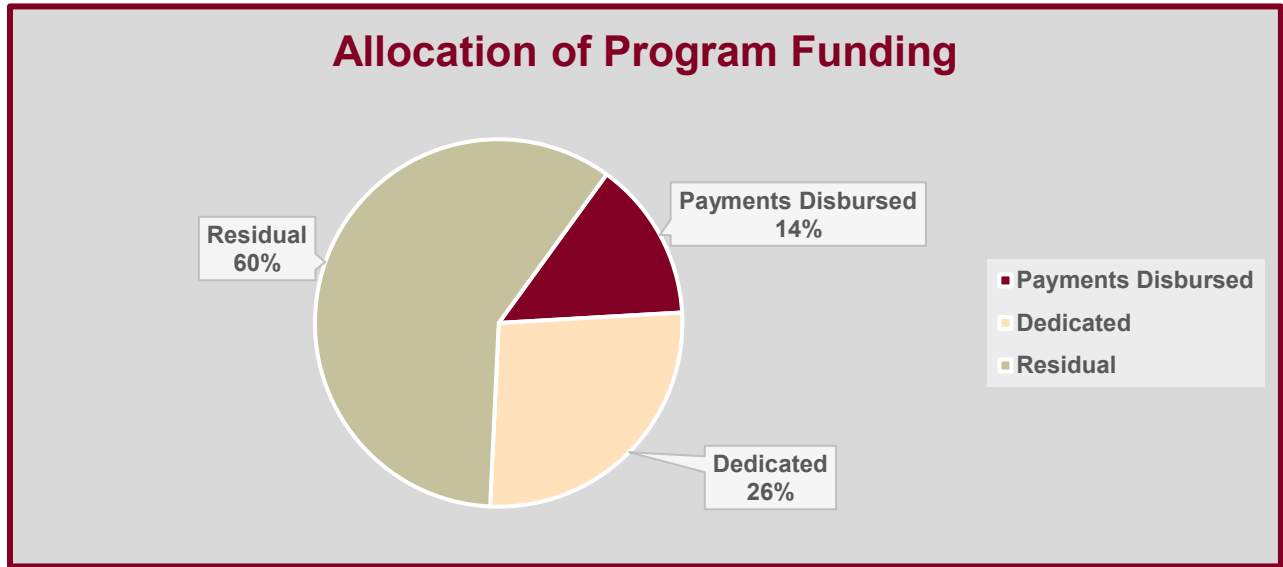
The Department utilizes the Neighborly software to obtain applications from developers/business owners and maintain project documentation and approvals from County officials. In addition, Department management reviews project applications to determine whether each applicable project includes the preferred principles stated in the Penny IV Pinellas Guidelines (Guidelines). Currently, each project is scored by utilizing 11 categories based on the preferred Guidelines established by the County.



Since the Program's launch in 2021, the County has approved 26 projects totaling \$308,784,365 in total project costs, which includes \$37,129,871 in Program funding and \$271,654,494 in developer/business owner costs. Therefore, the Program assists in funding 12.02% of the project costs while the developers/business owners contribute 87.98% of project costs. The chart below illustrates the funding for the 26 Program projects approved by the County.



Of the 26 approved Program projects, 7 projects have been completed, totaling \$13,104,336, or 14% of Program funding disbursed to developers/business owners. Furthermore, the Program has dedicated an additional \$24,025,535 or 26%, in funding for the remaining 19 approved projects currently in development. Therefore, the Department has 60% of the Program's funds to use for future projects, totaling \$55,870,129. The following illustration displays the current allocation of the \$93 million Program funding.



Developer/business owner applications are discussed with the Department's Director and the County Administrator. In addition, all completed applications are brought to the BCC for their review and final determination.

Upon completion of a project, developers/business owners submit an annual report to the Department for the first 10 years, which states the square footage used, the number of employees within the County, and average wages.



# SCOPE AND METHODOLOGY

We have conducted an audit of the internal controls over the Employment Sites Program conducted by the Department of Economic Development.

The audit period was May 1, 2023, through April 30, 2024. However, we did not limit the review of projects and processes by the audit period and scope.

During the audit, we performed the following:

1. Reviewed Program policies and procedures that governed the Employment Sites Program.
2. Met with Management to gain an understanding of the overall Program and its related functions.
3. Reviewed project documentation and the approval process within the Neighborly application.
4. Reviewed payments requested by and disbursed to the grantee for approved projects.

# OBJECTIVES AND OUTCOMES

The objectives of the audit were to:

1. Determine whether Program processes are efficient, documented, and maintained by Department management.
2. Determine whether Program documentation is completed, reviewed, and maintained by the Department.
3. Determine whether project approvals are obtained from Pinellas County officials.
4. Determine whether payments requested by and disbursed to the grantee are accurate and appropriate.

As a result of the audit, we determined:

1. Policies and procedures were not created detailing clawback and annual report processes. In addition, a formal scoring methodology was not created detailing the Department's scoring approach, analysis, evaluation, and justification for recommending a project based on the numerical value determined during the scoring process.
2. Program documentation obtained from the developer/business owner was complete, reviewed, and maintained by the Department.
3. Program projects were reviewed by the Department Director and County Administrator and approved by the Board of County Commissioners.
4. Payments disbursed to the developer/business owner corresponded with the amounts stated within the applicable contract.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General* and accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances.

# OPPORTUNITIES FOR IMPROVEMENT

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

## **1. The Employment Sites Program Lacks Detailed Procedures.**

### Clawback Procedures

In review of the Department's policies and procedures, we determined that payment recoupment procedures, also known as clawback procedures, were not created to detail the process regarding default payments due in the event of a developer and/or business owner's breach of contract. The default process includes but is not limited to, the methods to determine contractual breaches, notifications to applicable County officials, and facilitation of applicable payments that should be recovered by the County from the developer/business owner.

The clawback process is initiated when a building or space no longer functions in the manner approved within the 20-year contract, which could include a potential sale of the building. The developer/business owner is contractually responsible for notifying the Department of the sale and reassignment of a building/property within 30 business days. The following requirements are documented within each project contract:

Section 5-Part C regarding obligations of the contractual agreement with the developer/business owner states the following:

*“In the event there is a sale of the property, The Developer must comply with the provisions of Section 9 of this Agreement and notify Pinellas County Economic Development within thirty (30) business days in writing of the sale and provide contact information of the new property owner.”*

Section 9 of the contractual agreement with the developer/business owner regarding the assignment of the agreement states the following:

*“The Developer shall provide written notice to the County within thirty (30) business days of any action or occurrence assigning the Agreement or any rights or obligations hereunder as described in this section. The assignee must agree to be liable for and subject to all paragraphs and obligations of the Agreement and its subsequent amendments.”*

Section 18 of the contractual agreement with the developer/business owner regarding defaults and remedies, states the following:

*“In the event of any action that prohibits the construction of the (# of square feet) square foot industrial component or prevents the use of the space as an industrial space, including those contained within Section 9 of this Agreement, it will constitute a default. In the event of a default, the Owner shall repay to the County a portion of the Grant funds received as follows:*

- A. If the default occurs following the receipt of the first payment by the County and prior to receipt of the second payment by the County, the Owner shall pay back the entirety of the funds that were awarded to them.*
- B. If the default occurs following the receipt of the second payment by the County and prior to receipt of the third payment by the County, the Owner shall pay back the entirety of the funds that were awarded to them.*
- C. If the default occurs within 12 months of receipt of the Certificate of Occupancy for the building and payment by the County, the Owner shall return the entire amount received.*
- D. For every 12-month period for the remainder of the term of this Agreement, the amount to be paid by the Owner in the event of a default will be reduced by five percent (5%) in accordance with the Default and Remedies Repayment Schedule attached as Exhibit A and incorporated herein.”*

Currently, the County has not experienced a contract default, so payment recoupment has not been necessary. However, payments received from the developer/business owner due to a contract default are to be processed by the County and returned to the Penny for Pinellas fund.

The lack of clawback policies and procedures could potentially lead to either inaccurate or unobtained default payments from the developer/business owner as required by the contract.

In addition, unobtained or inaccurate payments from the developer/business owner would impact the amount of money returned to the Penny for Pinellas fund and affect the availability of such funds to approve future Program projects.

### **Annual Report Procedures**

In reviewing the Department's policies and procedures, we determined that the Department has not documented the process for retrieving, reviewing, and distributing developer/business owner annual reports. Upon completion of a project, the developer/business owner is required to submit

an annual report to the Department for the first 10 years, which states the square footage used, the number of employees within the County, and average wages.

Section 5-Part D regarding obligations of the contractual agreement with the developer/business owner states the following:

*“During the first ten (10) years of the Term of the Agreement, the Developer and any assignee will provide an annual report on or before December 1 of each year to Pinellas County Economic Development utilizing a mutually agreeable format established by the County including, but not limited to, total commercial square footage rented, and total number of jobs and average wages (if available). If any mistake or omission is discovered in the report, an accurate and complete updated report shall be sent within 15 days of notification of the error. The County and Developer may mutually agree in writing to modify report formats without the need to further modify, amend or renew this Agreement.”*

Due to the lack of policies and procedures for annual reports, the Department and County officials may not consistently be informed of changes or updates to grantee operations. This could potentially reduce the communication of achievements stemming from the numerous Program projects approved by the County.

***We Recommend Management:***

- A. Create clawback procedures to ensure all contractual policies are fulfilled and detailed to include, but not limited to, the following:
  - Method(s) to determine a potential breach of contract
  - Notification to applicable County Departments to initiate clawback procedures
  - Facilitation of payment retrieval from the developer/business as required by the contract
  
- B. Create procedures to ensure contractually required annual reports are obtained from the developer/business owner, appropriately reviewed by Department management, and distributed to applicable County officials.

**Management Response:**

- A. **Management Concurs.** We will review and work on developing clawback procedures.
  
- B. **Management Concurs.** We will review and work on developing annual report procedures.

## ***2. Application Scoring Does Not Constitute Determination Of Project Approvals.***

A formal methodology has not been created detailing the Department's scoring approach, analysis, evaluation, and justification for recommending a project based on the numerical value determined during the scoring process. Department management currently reviews and scores projects in 11 categories based on the preferred principles stated in the Guidelines, such as the project's size, location, and impact timing. The scoring of each category ranges from 5 to 20 points, and each category carries a different weight in the overall calculation.

The Department documents the project score within the project summary report discussed with the County Administrator and the BCC. The BCC reviews the project summary report, requests additional information, and determines whether to approve or reject a project. Projects are reviewed and approved on a first-come, first-served basis within each submission round. Therefore the current scoring matrix does not affect the priority of payments to projects once they are approved by the BCC.

A scoring methodology should ensure consistent evaluation across all projects and allow for meaningful interpretation. The Guidelines do not require or detail scoring values that projects must achieve to be recommended by the Department and/or approved by the BCC. The Department created the scoring matrix to assist with its internal review and ensure projects meet the preferred criteria outlined in the Guidelines. The current matrix scoring does not outline any thresholds projects must achieve to be recommended to the BCC.

Information within the project summary report is utilized by the BCC to determine whether a project is approved. Due to the absence of a scoring methodology, the BCC may inaccurately approve a project based on a scoring element that does not utilize a comprehensive method to potentially recommend a project for County funding.

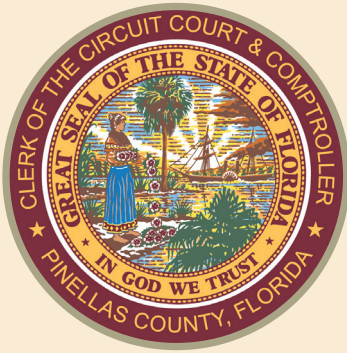
### ***We Recommend Management:***

- A. Analyze past, current, and future projects, and create a scoring methodology with defined thresholds that support Department recommendations to the BCC.
- B. Until a scoring methodology has been developed, implemented, and communicated to applicable parties, remove the scoring valuation from the project summary report submitted to the BCC to ensure projects are approved based on project details and a Department recommendation to the BCC.

### **Management Response:**

- A. **Management Concurs.** We will analyze past, current, and future projects and work with a consultant to create a scoring methodology with defined thresholds that support Department recommendations to the BCC.

- B. **Management Partially Concurs.** We may modify the project summary report submitted to the BCC when the methodology has been created, reviewed, and discussed with leadership for BCC consideration.



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