



**Hillsborough**  
**County** **Florida**

**Board of County Commissioners**  
**County Internal Auditor's Office**

**QUALIFIED TARGET INDUSTRY TAX REFUND PROGRAM**

**Audit Report # IA-18-05**  
**January 9, 2019**



**TO:** Board of County Commissioners

**FROM:** Peggy Caskey, County Internal Auditor

**DATE:** January 9, 2019

**SUBJECT:** Qualified Target Industry Tax Refund Program, Audit Report #IA-18-05

The Audit Team performed a compliance audit of the Qualified Target Industry Tax Refund Program (QTI Program).

The purpose of this Report is to provide management independent, objective analysis, and information concerning the activities reviewed. As such, this Report is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate the cooperation and professional courtesies extended to the Audit Team. The County Administrator gave full, free, and unrestricted access to all applicable activities, records, and personnel necessary to accomplish the stated objective of this audit engagement. Personnel also provided necessary assistance for the Audit Team to effectively perform the audit in an efficient manner.

Sincerely,

Peggy Caskey, CIA, CISA, CFE  
County Internal Auditor

**CC:** Ron Barton, Assistant County Administrator  
Christine Beck, County Attorney  
Greg Horwedel, Deputy County Administrator  
Lindsey Kimball, Director of Economic Development  
Mike Merrill, County Administrator

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## **EXECUTIVE SUMMARY**

As per the 2018 Annual Audit Plan, the County Internal Auditor's Office conducted a compliance audit of QTI Program operations. The principal objectives of this audit were to assess QTI Program activities to County and State requirements; identify opportunities to enhance the activity's management and work process, as well as its value to the residents of Hillsborough County. The exit conference was held on October 18, 2018. The Audit Team's analysis did not identify any unacceptable levels of practices. Other minor concerns, that may have been identified and not included in this Report, were communicated to management and/or corrected during fieldwork.

## **OVERALL OPINION**

It is the County Internal Auditor's overall opinion that the QTI Program activity generally complies with the County and State requirements reviewed. The activity is at the formal or defined maturity level (level 3 out of a possible 5). Controls are well defined and documented, thus, there is consistency even in times of change. Overall control awareness exists. Control gaps are detected and remediated timely. Performance monitoring is mostly qualitative rather than quantitative. A performance measurement system for reporting key goals and results on the County Administrator's anticipated dashboard is being developed. The Audit Team made observations and identified positive attributes as well as opportunities to further mature overall operations which are included in this Report.

## **AUDITED BY**

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## BACKGROUND INFORMATION

Florida Statutes, Title XIX §288.106, states that "...retaining and expanding existing businesses in the State, encouraging the creation of new businesses in the State, attracting new businesses from outside the State, and generally providing conditions favorable for the growth of target industries creates high-quality, high-wage employment opportunities for residents of the State and strengthens the State's economic foundation."

All QTI Program participants must have a performance based agreement with the State. The agreement outlines specific milestones that the business must achieve. Each achievement is verified by the State prior to submitting a tax refund payment to the business. Florida's Department of Economic Opportunity pays 80% of the tax refund; the local financial commitment constitutes the remaining 20% of the overall tax refund. If the business is located in a municipality, the local financial commitment is divided between the County and the municipality. The municipality pays 90% of the local financial support for businesses located in a Community Redevelopment Tax Increment Area. Shown in the table below, the tax refund payment is based on the number of jobs created. The tax refund is capped at the amount of taxes paid by the business (including corporate income, sales, use, ad valorem, intangible personal property, insurance premium, excise, and State communications services).

Generally, a QTI Program business is eligible to receive a tax refund payment equal to:	
•	\$3,000 per number of jobs specified in the tax refund agreement or
•	\$6,000 per number of jobs if the project is located in a rural community or an enterprise zone.
A business is eligible for an additional:	
•	\$1,000 per job bonus if it pays over 150% of the average wage in the area.
•	\$2,000 per job bonus if it pays over 200% of the average wage in the area.

The Economic Development Department, collaborates with the Tampa Hillsborough Economic Development Corporation and assists businesses wanting to establish new, or expand existing, employment opportunities within Hillsborough County. The Economic Development Department preliminarily determines eligibility and assists with explaining QTI Program requirements to applicants.

QTI Program Collaboration Between Hillsborough County and the State of Florida		
Role	Hillsborough County	State of Florida
<b>Perform regulatory functions</b>	Economic Development Department - under the responsibility of the Board of County Commissioners.	Division of Strategic Business Development - a division of the Department of Economic Opportunity.
<b>Perform marketing functions</b>	Tampa Hillsborough Economic Development Corporation - a Hillsborough regional group that is not under the responsibility of the Board of County Commissioners.	Enterprise Florida Inc. - a State agency

## AUDIT OBJECTIVE

The principal objectives of this audit engagement were to assess QTI Program activities to County and State requirements; identify opportunities to enhance the activity's management and work process, as well as its value to the residents of Hillsborough County.

## APPROACH

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. These Standards require that the County Internal Auditor's Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. The County Internal Auditor believes that the evidence obtained provides this reasonable basis.

## SCOPE

Prior to the Audit Team's commencement of work, preliminary meetings were held with key management of the audited area. During fieldwork, the Audit Team performed onsite observations, conducted interviews, reviewed established policies and procedures, reviewed database records, and reviewed other necessary support documentation. The scope of work was by and large limited to QTI Program activities approved by the Board between January 1, 2007, and December 31, 2017. The Audit Team reviewed completed and active project files to assess the approval process, compliance with County and State requirements, and data validation of the activity's outcomes.

## OBSERVATIONS AND POSITIVE ATTRIBUTES

Management is endeavoring to further mature QTI Program activities. Some successful practices observed were:

- The Economic Development Department works in collaboration with the State to attract eligible businesses that will benefit the County and do not impose environmental and reputational impacts.
- The Economic Development Department has policies and procedures that provide staff step-by-step instructions to adequately perform the required checks and balances in the process.
- The Economic Development Department has received two Florida Economic Development Council Deal of the Year Awards for the M2Gen project and the CitiGroup expansion, in 2008 and 2016 respectively. The award recognizes outstanding achievement in the location/expansion of businesses in the State of Florida that meet community economic development goals and involve significant community program support, such as financial or permitting assistance, workforce development, state financial support, etc.

## RESULTS

### 1. Program Compliance Testing

From calendar year 2007 through 2017, the Economic Development Department had a population of 53 active QTI Program projects and 4 projects started and completed during that time period. A random sample was selected of six active projects and the full population of the four projects that were started and completed during that time period. For each of the 10 sampled items, the Audit Team tested if the Economic Development Department adequately performed the following six key control points in the QTI Program life cycle:

1. reviewed the business' application to determine the business' eligibility and benefit to the County;
2. obtained the Board's recommendation via resolution, that the Economic Development Department's prospect is approved as a QTI Program business pursuant to Section 288.106, Florida Statutes;
3. verified that Florida's Department of Economic Opportunity approved the business;
4. verified that Florida's Department of Economic Opportunity validated that the business met the agreement requirements;
5. validated that the business met its local tax obligations; and
6. validated that the Economic Development Department reviewed and approved the County's tax refund payment to the State.

The Audit Team reviewed the sample of 10 QTI Program projects and identified no exceptions. The Economic Development Department is following the key controls that help ensure proper approval and verification is performed prior to the County's tax refund payment to the State.

### 2. Program Outcomes Data Validation

For each of the 10 projects in the sample, the Audit Team validated that the County's tax refund payment to the State and ad valorem (real estate and tangible) tax collected from the business were accurately recorded in the Economic Development Department tracking spreadsheet. The Economic Development Department takes a conservative approach of tracking only the direct resources invested and benefits received in the way of ad valorem taxes to support local services including parks, libraries, schools, utilities, etc. The spreadsheet does not include taxes collected for corporate income, sales, use, insurance premium, excise, State communications services or other indirect or induced benefits the QTI Program may provide to the County.

The Audit Team identified minor discrepancies in the tracking spreadsheet which was mostly due to recording the ad valorem tax bill amount instead of the taxes paid. The Audit Team made these minor corrections when calculating the totals reported in the table below.

<b>Audit Team's Sample of 10 Projects</b> <b>Tax Refund Payments, Ad Valorem Tax Collected, Full Time Employees Maintained, and Average Wages</b> <b>from June 2007 through March 2018    Verified to Source Documents</b>				
Tax Refund Payments (County)	Ad Valorem Tax Collected (Business)	Ratio of Tax Refund Payments to Ad Valorem Tax Collected	Full Time Employees Maintained	Average Wages
\$235,101.86	\$842,219.41	\$1 to \$3.58	2,991	\$48,717

### 3. Value to Hillsborough County Residents

In 2013, the State of Florida instituted an economic impact model to estimate additional economic activities (indirect and induced ripple effects) generated by the direct economic activity of each QTI Program project. For example,

- Construction of a new building will lead to an increase in production for industries who supply construction materials (indirect).
- Construction workers will spend their wages on items such as groceries, dining, and entertainment (induced), and other local businesses.

An economic impact model similar to the State's model, has not been instituted at the County level. The Economic Development Department determined that the cost to identify and scrutinize indirect and induced activities' effects outweighs the benefits it would provide. Management is concerned that a county model could overstate the return on investment.

Per management, the QTI Program has historically provided the following economic benefits to Hillsborough County's residents:

- The QTI Program supports a diverse economy. As a result, the County is less impacted during economic downturns.
- A diverse economy provides for a ladder of opportunity for residents who stay in the area.
- Target industries increase the size of the local economy by importing new revenue from customers outside of the local market. For example,
  - Goods – a target manufacturing industry may produce jet engine turbine blades which are sold to customers outside of Hillsborough County.
  - Services – a target cybersecurity industry may offer protection to companies (customers) internationally.
- During the past 10 years, Hillsborough County's average wage increased by more than any other major metropolitan area in the State and it now has the second highest average wage of any county in the State. (Source: Enterprise Florida average wage data for incentives.)

The table below shows a 28-year look back of changes in the local economy from investments in select targeted industries. During this time period, these and other targeted industries increased their relative percentage of the total industry composition. (Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment & Wages, Annual Averages.)

Changes in Local Economy from 1990 2017 in Targeted Industries					
Targeted Industry	Industry Growth (new firms)	Job Growth	Average Wage 1990	Average Wage 2017	Average Wage increase
<b>Finance and Insurance</b>	133%	105%	\$26,631	\$78,762	200%
<b>Professional and Technical Services</b>	205%	135%	\$30,277	\$81,762	170%



## **OPPORTUNITIES TO FURTHER MATURE OPERATIONS**

1. For reporting purposes there may be an opportunity to:
  - extract data of tax refund payments made by the County directly from the Oracle financial record; and
  - extract data of ad valorem tax collected from businesses directly from the Tax Collector's Office.

This will assure data accuracy and reduce the need to manually enter this information into a spreadsheet.

2. The QTI Program project source documentation is maintained in paper files. Digitizing these paper files will provide for secure storage, flexible access, and maximized the use of office space.
3. Continue to mature the Economic Development Department's performance measurement system for the QTI Program whereby goals and key results are reported on the County Administrator's anticipated dashboard.