

**DEPARTMENT OF ECONOMIC OPPORTUNITY  
AND ENTERPRISE FLORIDA, INC.**

State Economic Development Incentive Programs  
and Selected Department Administrative Activities



Sherrill F. Norman, CPA  
Auditor General

## **Department of Economic Opportunity and Enterprise Florida, Inc.**

The Department of Economic Opportunity is established by Section 20.60, Florida Statutes. The head of the Department is the Executive Director who is appointed by the Governor and subject to confirmation by the Senate. During the period of our audit, the following individuals served as Executive Director:

Theresa "Cissy" Proctor From January 9, 2016  
Jesse Panuccio Through January 8, 2016

Section 288.901, Florida Statutes, establishes Enterprise Florida, Inc. (EFI) as a nonprofit corporation and provides that, in collaboration with the Department, EFI is to serve as the State's principal economic development organization. EFI is governed by a Board of Directors that includes voting members representing both the public and private sectors. Members include the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture; lawmakers; individuals appointed by the Governor, the President of the Senate, and the Speaker of the House of Representatives; and corporate sponsors. All appointed members are subject to Senate approval. Pursuant to Section 288.905, Florida Statutes, the EFI Board of Directors is to appoint a President (also known as the Secretary of Commerce and Chief Executive Officer) who serves at the pleasure of the Governor. During the period of our audit, the following individuals served as EFI President:

Charles C. Hart, VI From January 3, 2017  
Michael Grissom, Interim From June 25, 2016, through January 2, 2017  
Herbert C. Johnson Through June 24, 2016

The audit was supervised by Joshua Barrett, CPA.

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# DEPARTMENT OF ECONOMIC OPPORTUNITY AND ENTERPRISE FLORIDA, INC.

## State Economic Development Incentive Programs and Selected Department Administrative Activities

### ***SUMMARY***

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This operational audit of the Department of Economic Opportunity (Department) and Enterprise Florida, Inc. (EFI) focused on the administration of selected State economic development incentive programs and selected Department administrative activities. Our audit disclosed the following:

#### **State Economic Development Incentive Programs**

**Finding 1:** Department and EFI controls need enhancement to ensure that economic development incentive applications are administered in accordance with State law.

**Finding 2:** Department and EFI processes for tracking economic development incentive applications, timely and appropriately recording application data, and sharing application data need improvement.

**Finding 3:** Department controls for administering prorated tax refunds awarded to Qualified Target Industry (QTI) businesses need enhancement to ensure that prorated refunds are awarded in accordance with State law and Department records evidence that QTI economic development incentive agreements comply with current State law and Department procedures governing the application for and award of tax refunds.

**Finding 4:** EFI did not always ensure that counties submitted the statutorily required overviews of economic development incentives offered.

**Finding 5:** Department and EFI controls need enhancement to ensure that EFI performance results are consistently and accurately reported in Department and EFI annual reports.

**Finding 6:** Department records did not always evidence that third-party personnel with access to proprietary and confidential business information received required background screenings or the results of screenings conducted.

**Finding 7:** The EFI President and senior managers were not required to complete conflict of interest forms and EFI records did not include conflict of interest forms for all Board members.

**Finding 8:** Division of Strategic Business Development controls need improvement to help prevent and detect any improper or unauthorized use of Salesforce user access privileges.

**Finding 9:** Certain security controls related to the logging and monitoring of Salesforce activity need improvement to better ensure that inappropriate or unauthorized system activity, should it occur, will be timely detected and resolved.

## Selected Department Administrative Activities

**Finding 10:** Department controls need enhancement to better ensure that purchasing card transaction limits are necessary for cardholder daily duties and purchasing cards are timely canceled upon a cardholder's separation from Department employment.

## BACKGROUND

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State law<sup>1</sup> provides that the purpose of the Department of Economic Opportunity (Department) is to assist the Governor in working with the Legislature, State agencies, business leaders, and economic development professionals to formulate and implement coherent and consistent policies and strategies designed to promote economic opportunities for all Floridians. To execute these responsibilities, the Department is organized into five divisions: the Division of Strategic Business Development, the Division of Community Development, the Division of Workforce Services, the Division of Finance and Administration, and the Division of Information Technology.<sup>2</sup> For the 2016-17 fiscal year, the Legislature appropriated \$1.114 billion to the Department and authorized 1,537.50 positions.

State law<sup>3</sup> provides that the purpose of Enterprise Florida, Inc. (EFI) is to act as the economic development organization for the State, utilizing private sector and public sector expertise in collaboration with the Department to:

- Increase private investment in Florida.
- Advance international and domestic trade opportunities.
- Market the State both as a probusiness location for new investment and as an unparalleled tourist destination.
- Revitalize Florida's space and aerospace industries, and promote emerging complementary industries.
- Promote opportunities for minority-owned businesses.
- Assist and market professional and amateur sport teams and sporting events in Florida.
- Assist, promote, and enhance economic opportunities in the State's rural and urban communities.

For the 2016-17 fiscal year, the Legislature appropriated \$23.5 million to EFI.

## FINDINGS AND RECOMMENDATIONS

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STATE ECONOMIC DEVELOPMENT INCENTIVE PROGRAMS
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To achieve the Department's economic development purpose, State law<sup>4</sup> specifies certain duties and responsibilities for the Division of Strategic Business Development, the Division of Community

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<sup>1</sup> Section 20.60(4), Florida Statutes.

<sup>2</sup> Section 20.60(3), Florida Statutes.

<sup>3</sup> Section 288.901(2), Florida Statutes.

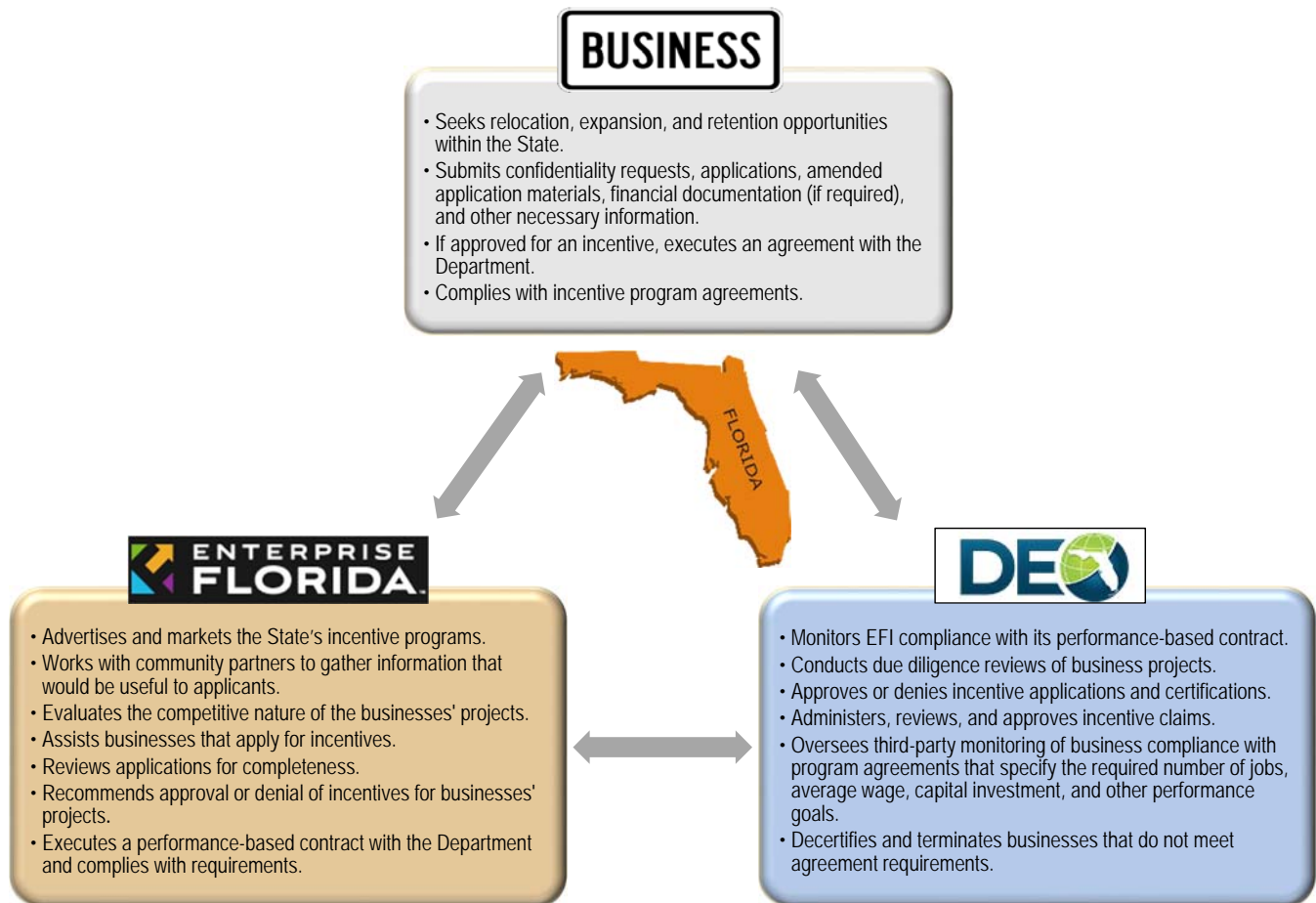
<sup>4</sup> Section 20.60, Florida Statutes.

Development, and the Division of Workforce Services. For example, the Division of Strategic Business Development (Division) is to:

- Analyze and evaluate business prospects identified by the Governor, the Executive Director of the Department, and EFI.
- Administer certain tax refund, tax credit, and grant programs created in State law.
- Develop measurement protocols for State incentive programs and for the entities contracting for economic development incentives, which are to be used to assess the entities' performance and competitive value to the State.

In 1992, the Legislature established<sup>5</sup> EFI as a nonprofit corporation to serve as the State's principal economic development organization. In this role, EFI collaborates with the Department and other partners to facilitate private-sector job growth by attracting and retaining businesses through economic development incentives. EFI also serves as the primary point of contact for businesses with relocation, expansion, or retention opportunities. Chart 1 provides an overview of the economic development incentive process.

**Chart 1  
Overview of the Economic Development Incentive Process**



Source: Department records.

<sup>5</sup> Chapter 92-277, Laws of Florida.

Pursuant to State law,<sup>6</sup> the Department enters into an annual performance-based contract with EFI that includes performance measures that EFI must comply with and requires EFI to provide certain deliverables prior to the release of funds appropriated by the Legislature. Legislative appropriations to EFI totaled \$25 million and \$23.5 million for the 2015-16 and 2016-17 fiscal years, respectively.

The Division, Bureau of Business and Economic Incentives, is responsible for working in conjunction with EFI to determine whether economic development incentives are appropriate for a business-proposed project, reviewing completed economic development incentive applications, providing the Executive Director recommendations to approve or disapprove of an application, and executing agreements with approved businesses. Pursuant to State law,<sup>7</sup> the Department contracted with an independent third-party<sup>8</sup> to verify the incentive recipients' compliance with the performance terms of the agreements. The independent third-party was to present to the Division, Bureau of Compliance and Accountability, for review and approval the verification results, including whether full, partial, or no payments to the business were recommended. Table 1 summarizes the economic development incentive agreements active during the period July 2015 through February 2017.

**Table 1**  
**Active Economic Development Incentive Agreements**  
**July 2015 Through February 2017**

Statutory Authority	Incentive Agreement Title	Amount Awarded	Number of Agreements
<b><i>Tax Refunds</i></b>			
288.1045	Qualified Defense and Space Contractor Tax Refund	\$ 7,041,000	4
288.106	Qualified Target Industry	305,527,500	543
288.107	Brownfield Redevelopment Bonus Refunds	13,288,000	35
<b><i>Cash Grants</i></b>			
288.108	High-Impact Performance Incentive	41,240,000	10
288.1088	Quick Action Closing Fund	260,234,936	134
288.1089	Innovation Incentive Program	455,690,000	9
<b>Total</b>		<b><u>\$1,083,021,436</u></b>	<b><u>735</u></b>

Source: Department records.

**EXHIBIT A** to this report provides an overview of some of the State economic development incentive programs administered by the Department and EFI.

### **Finding 1: Economic Development Incentive Application Reviews**

State law<sup>9</sup> specifies that, upon receiving an economic development incentive application, the Division and designated EFI staff are to review the application to ensure that the application is complete and the Division is required to notify the applicant of an incomplete application within 5 business days of receiving

<sup>6</sup> Sections 20.60(9)(b) and 288.901(3), Florida Statutes.

<sup>7</sup> Chapters 2015-232 and 2016-066, Laws of Florida.

<sup>8</sup> Contract Nos. C1172 and C1717, totaling \$1,363,258 and \$717,130, covered the periods February 24, 2014, through March 31, 2016, and April 1, 2016, through March 31, 2017, respectively.

<sup>9</sup> Section 288.061(1), Florida Statutes.

the application. The review process includes determining what type of State and local permits, if any, may be necessary for the applicant's project, whether it is possible to waive such permits, and what State incentives and amounts of such incentives may be available to the applicant. As part of the review process, EFI provides the applicant an opinion letter or valuation proposal detailing the amount of State incentives the applicant may be eligible to receive. Unless the applicant requests an extension of time, the Executive Director of the Department must approve or disapprove an application within 10 business days.<sup>10</sup>

State law<sup>11</sup> also provides minimum requirements for businesses to be eligible to receive Department certification for tax exemptions related to semiconductor, defense, and space technology (SDST) purchases. State law requires businesses to obtain SDST certification renewal every 2 years and provides that the Department is to issue the certification renewal within 5 business days of receiving the request. Upon recommending the approval of an incentive application, SDST certification, or SDST certification renewal, the Division is to input into Salesforce<sup>12</sup> application or certification renewal information, including the dates applications or certification renewal requests were received, considered complete, and approved by the Executive Director. Additionally, the Department's performance-based contracts with EFI for the period July 2015 through June 2017 required, among other things, that EFI review and evaluate new applications for Qualified Target Industry (QTI) tax refunds, Capital Investment Tax Credits (CITCs), High-Impact Performance Incentive (HIPI) cash grants, and SDST tax exemptions.

We examined Division and EFI records for 36 economic development incentive applications (7 Quick Action Closing Fund (QACF), 18 QTI, 5 CITC, 3 HIPI, 2 Brownfield, and 1 SDST) and 5 SDST certification renewal requests approved during the period July 2015 through February 2017 to determine whether the Division and EFI performed application reviews and SDST certifications and renewals in accordance with State law and the performance-based contract provisions. Our examination disclosed that:

- The Division and EFI did not determine for the 35 applicable applications (7 QACF, 18 QTI, 5 CITC, 3 HIPI, and 2 Brownfield) whether State and local permits were needed and whether any applicable permits could be waived. In response to our audit inquiry, Division management indicated that the Division relied on EFI working with applicants and local economic development entities to determine whether State and local permits were needed and if they could be waived. EFI management indicated that EFI relied on applicants and local economic development entities to determine whether State and local permits were needed and if they could be waived. However, our audit procedures disclosed that neither EFI or Division records evidenced any determinations regarding the need for State and local permits.
- For 15 applications (6 QACF, 6 QTI, 2 HIPI, and 1 Brownfield), the Division did not timely notify the applicants that their applications were incomplete. Specifically, the Division notified the applicants that their applications were incomplete 6 to 42 business days (an average of 18 business days) after receiving the applications. In response to our audit inquiry, Division management indicated that, prior to the documented notification date, staff had verbally communicated to the applicants that their applications were incomplete; however, staff were not required to and did not document these communications.

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<sup>10</sup> Section 288.061, Florida Statutes.

<sup>11</sup> Section 212.08(5)(j)5.c., Florida Statutes.

<sup>12</sup> Salesforce is a Web-based, multi-tenant cloud based solution consisting of a collection of application development, deployment, and hosting services, obtained from a service organization. The Department and EFI individually utilized Salesforce.

- Division records did not evidence that 14 applications (5 QACF, 6 QTI, 2 CITC, and 1 Brownfield) were approved within 10 business days of receiving a completed application or that the applicants had requested an extension of time. Specifically, Division records indicated that the applications were approved 11 to 67 business days (an average of 32 business days) after receiving completed applications.
- Division records for one SDST certification renewal did not evidence that the Division timely requested from the recipient the information necessary to issue the renewal within the time frame specified by State law. Specifically, Division records indicated that the Division requested additional information from the recipient 58 business days after receiving the certification renewal request. In response to our audit inquiry, Division management indicated that Division staff verbally communicated with the SDST recipient between the time the certification renewal request was received and the first documented date information was requested. However, this communication was not documented.
- EFI records did not evidence for 13 applications (8 QTI, 3 CITC, and 2 Brownfield) that EFI determined the amount of State incentives available to the applicant. In response to our audit inquiry, EFI management indicated that EFI staff verbally communicated the available incentives to the applicants. However, such communications were not documented.

The timely and documented evaluation of applications for economic development incentives to determine whether the applications are complete; what, if any, State and local permits are required; whether applicable permits can be waived; and the amount of State incentives available to applicants is essential to ensure that economic development incentives are administered in accordance with State law.

**Recommendation: We recommend that Division and EFI management enhance economic development incentive application review and approval controls to ensure that Division and EFI records demonstrate that applications are reviewed and processed in accordance with State law.**

## **Finding 2: Economic Development Incentive Applications Data**

State law<sup>13</sup> requires that, by December 30<sup>th</sup> each year, EFI, in conjunction with the Department, provide to the Governor, the President of the Senate, and the Speaker of the House of Representatives a detailed incentives report quantifying the economic benefits of all economic development incentive programs marketed by EFI. The incentives report is to include, among other things, the number of economic development incentive applications received during the previous State fiscal year and the number of applications recommended for approval and for denial.

During the period July 2015 through February 2017, EFI and the Division used Salesforce to track the progress of economic development incentive applications and capture related data. As part of our audit, we evaluated EFI and Division processes for tracking economic development incentive applications and capturing related data and noted that improvements were needed. Specifically, we found that:

- Although EFI and the Division used Salesforce to track the progress of economic development incentive applications and capture related data, EFI and the Division independently used Salesforce and, as a result, application data was not consistently and efficiently shared to manage and track staff efforts to recruit businesses from initial contact through the approval or disapproval of applications.

<sup>13</sup> Section 288.907, Florida Statutes.

- EFI records did not always evidence staff efforts to contact businesses contemplating an expansion in or relocation to the State.
- EFI recorded in Salesforce a “Not Recommended” status for 4 applicants that had withdrawn their application.
- EFI records did not adequately demonstrate the dates applications were received or provided to the Department for further review and, as noted in Finding 1, prior to the Division’s recommendation to approve or disapprove applications, Division staff were not required to input into Salesforce the dates applications were received from EFI, when additional information was requested by the Division, or when the applications were considered complete. Consequently, the ability of EFI and the Division to ensure that application data was completely and accurately reported was diminished. For example, while the 2016 incentives report indicated that 122 applications for economic development incentives were received during the 2015-16 fiscal year, our review of Salesforce records as of August 7, 2017, disclosed that 132 applications were received during the 2015-16 fiscal year.

In response to our audit inquiry, EFI management indicated that EFI did not have an accurate mechanism to capture when initial contact with businesses occurred and that staff oversights resulted in the incorrect status being assigned to certain applications. EFI management also indicated that EFI responsibilities did not include tracking application receipt dates after the three EFI positions responsible for this activity were transferred to the Department in 2011. However, EFI and the Department were working to better track application data across both entities. This collaboration includes EFI and the Department working on the logistics of utilizing Salesforce jointly.

According to Division management, information such as requests for and the receipt of additional information was tracked at the individual project level and not Divisionwide. However, as noted in Finding 1, Division management did not require staff to document verbal requests for additional information, including the dates requests were made and when information was received.

Absent the consistent and efficient sharing of Salesforce application data between EFI and the Division, records demonstrating EFI efforts to contact businesses contemplating an expansion in or relocation to the State and the dates incentives applications are received by EFI and provided to the Department for further review, accurate recording of application dispositions, and the timely recording of application data into Salesforce, EFI and Division management’s ability to effectively manage and monitor incentives applications, track Division and EFI efforts, and ensure the accuracy and completeness of annual incentive report information is limited.

**Recommendation: We recommend that EFI and Division management work collaboratively to consistently and efficiently share Salesforce application data. Additionally, we recommend that EFI management enhance controls to ensure that staff efforts to contact businesses contemplating an expansion in or relocation to the State are adequately documented, Salesforce accurately reflects the dates applications are received and provided to the Department for further review, and application dispositions are accurate. We also recommend that Division management ensure that application data is timely recorded in Salesforce.**

### Finding 3: Prorated QTI Tax Refunds

State law<sup>14</sup> specifies that each QTI business eligible to receive a tax refund must comply with the terms and conditions of the economic development incentive agreement with the Department before receiving a tax refund each year. A QTI business that does not comply with the terms and conditions of the agreement loses its eligibility to receive all previously authorized tax refunds and its certification as a QTI business, unless the business is eligible to receive and elects to accept a prorated tax refund. As a condition for receiving a prorated tax refund, State law<sup>15</sup> requires a QTI business to agree to renegotiate its economic development incentive agreement with the Department to ensure that the terms of the agreement comply with current State law and Department procedures governing the application for and award of tax refunds.

State law<sup>16</sup> provides that a prorated tax refund, less a 5 percent penalty, is to be calculated by multiplying the tax refund amount for which the QTI business would have been eligible to receive, had all requirements been satisfied, by the percentage of the average employment specified in the agreement which was achieved, and by the percentage of the average wages specified in the agreement which was achieved. The Division clarified in the QTI economic development incentive agreement that, if both the average employment and average wage requirements were not met, but the QTI business was eligible to receive a prorated amount, the tax refund amount, less a 5 percent penalty, would first be applied to the employment percentage, then the remaining prorated tax refund amount would be applied to the average wages percentage.

As part of our audit, we examined Division records for 16 prorated tax refunds, totaling \$2,125,712, provided to QTI businesses during the period July 2015 through February 2017, to determine whether the Division administered prorated QTI tax refunds in accordance with State law. Our examination disclosed that Division controls for administering prorated QTI tax refunds could be enhanced. Specifically, we noted that:

- For a \$136,563 prorated tax refund, the QTI business did not achieve the average employment or average wage requirements. However, in determining the prorated tax refund amount, the independent third-party reviewer did not apply the average wage percentage to the amount, and the Division did not detect this error during its review and approval of the prorated tax refund, resulting in a \$9,109 overpayment. In response to our audit inquiry, Division management indicated that the prorated tax refund calculation should have been performed in accordance with the terms of the agreement and subsequently, the Division reached out to the QTI business to request the overpayment amount be returned.
- For 7 prorated tax refunds totaling \$1,218,253, the Division did not document efforts to ensure that the agreement terms complied with current State law and Department procedures governing the application for and award of tax refunds, nor were the QTI businesses required to renegotiate their economic development incentive agreements. In response to our audit inquiry, Division management indicated that the agreements were still in compliance with current law and Division procedures; therefore, formal amendments were not executed. Notwithstanding Division

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<sup>14</sup> Section 288.106(5)(b), Florida Statutes.

<sup>15</sup> Section 288.106(5)(b)3., Florida Statutes.

<sup>16</sup> Section 288.106(6)(e), Florida Statutes.

management's response, Division records did not evidence the Division's determination that the existing agreements complied with current State law and Department procedures.

Absent adequate controls for calculating and approving prorated QTI tax refunds, QTI businesses may receive tax refunds in amounts that differ from those provided for by State law. Additionally, renegotiating QTI economic development incentive agreements when prorated tax refunds are approved, or documenting that existing agreements comply with State law and Department procedures, would provide the Division greater assurance that QTI businesses are bound by current State law and Department procedures governing the application for and award of tax refunds.

**Recommendation:** To ensure that tax refunds are provided in accordance with State law, we recommend that Division management enhance controls for reviewing and approving prorated QTI tax refunds. Additionally, we recommend that Division management document efforts to ensure that QTI economic development incentive agreements comply with current State law and Department procedures governing the application for and award of tax refunds.

#### **Finding 4: Community Overviews of Economic Development Incentives**

To assist in achieving EFI's purpose, State law<sup>17</sup> provides that, by September 30<sup>th</sup> each year, all counties and municipalities with populations greater than 25,000, or the applicable local economic development organization, must submit to EFI a brief overview of the strengths, services, and economic development incentives that its community offers. The counties and municipalities are also required to identify any industries that it is encouraging to locate or relocate to its area.

As part of our audit, we examined EFI records for ten counties with populations greater than 25,000 to determine whether EFI obtained from the counties the statutorily required overviews by September 30, 2015, and September 30, 2016. Our audit procedures disclosed that EFI records did not evidence that any of the ten counties submitted the required overviews for the 2016 reporting year. Additionally, in response to our audit inquiry, EFI management indicated that, due to EFI restructuring, EFI did not obtain overviews from any of the counties required to submit an overview for the 2016 reporting year.

To properly market and promote the entire State to potential businesses, and to appropriately direct industries to specific counties, it is important that EFI ensure counties timely provide EFI the economic development incentives overviews and information required by State law.

**Recommendation:** We recommend that EFI management work with counties to ensure that counties timely submit to EFI the economic development incentives overviews and information required by State law.

#### **Finding 5: Reporting of Performance Results**

State law<sup>18</sup> requires the Department to enter into performance-based contracts with EFI that include annual performance measures and standards. State law<sup>19</sup> provides that it is the Legislature's intent to

<sup>17</sup> Section 288.912, Florida Statutes.

<sup>18</sup> Sections 20.60(9)(b), 288.901(3), and 288.904(4), Florida Statutes.

<sup>19</sup> Section 288.904(5), Florida Statutes.

review EFI's performance in achieving the performance goals stated in its annual contract with the Department to determine whether the public is receiving a positive return on its investment in EFI. Accordingly, State law<sup>20</sup> requires the Department and EFI to submit by November 1 and December 1, respectively, an annual report to the Governor, the President of the Senate, and the Speaker of the House of Representatives detailing how the performance measures are being met.

As part of our audit, we compared EFI performance results noted in the Department's 2015-16 fiscal year annual report to the performance results reported in EFI's 2015-16 fiscal year annual report to evaluate the accuracy and completeness of the reported results. As shown in Table 2, our comparison found a number of differences between the performance results noted in the annual reports and, in two instances, the differences impacted whether the reported results reflected EFI's achievement of the performance measures and standards. Additionally, EFI's annual report did not include data for one performance measure included in EFI's performance-based contract with the Department.

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<sup>20</sup> Sections 20.60(10) and (11), and 288.906(1), Florida Statutes.

**Table 2**  
**EFI Performance Results Reported for the 2015-16 Fiscal Year**

Performance Measure	Contract Performance Standard	Performance Result Per Department Annual Report	Performance Result Per EFI Annual Report
<b>1. BUSINESS DEVELOPMENT: PROPOSED JOB CREATION</b>			
a. Total number of proposed jobs to be created by businesses assisted by EFI	27,500	28,919	28,919
(1) In rural communities	800	523	523
(2) In distressed urban communities	2,300	749	749
(3) By international businesses	1,400	1,573 *	3,388 *
(4) By small (<500 employees) and/or minority businesses	12,000	14,355 *	3,337 *
(5) With incentives	18,000	6,946 *	23,863 *
<b>2. INTERNATIONAL TRADE</b>			
a. Number of Florida based businesses assisted by EFI for international trade	2,250	2,758	2,758
b. Number of companies with export sales attributable to activities conducted by EFI	215	339	339
c. Amount (US dollar value) of projected export sales attributable to the activities conducted by EFI	\$675,000,000	\$911,480,000	\$911,480,000
<b>3. MARKETING FLORIDA</b>			
a. Web traffic to EFI Web site (overall traffic in visits)	250,000	383,174 *	Not reported *
b. Positive media hits	500	1,460	1,460
c. Total social medial channel followers	21,000	21,171	21,171
<b>4. MINORITY AND/OR SMALL BUSINESS, ENTREPRENEURSHIP AND CAPITAL</b>			
a. Number of businesses that received financial assistance	45	109 *	66 *
b. Amount of funds invested	\$17,000,000	\$10,179,000	\$10,179,000
<b>5. EFI – GENERAL</b>			
a. Satisfaction of businesses served with investment or trade assistance provided by EFI	95%	97% *	95% *
b. Number of strategies in the <i>Florida Strategic Plan for Economic Development</i> being implemented by EFI	11	11	11
c. Response rate for Business Development/International Trade Development customer satisfaction survey	30%	34% *	43% *

\* Performance results reported in the Department 2015-16 fiscal year annual report and EFI 2015-16 fiscal year annual report did not agree.

Source: Department 2015-16 fiscal year annual report and EFI 2015-16 fiscal year annual report.

In response to our audit inquiry, Department management indicated that the figures used in the Department's annual report were based on quarterly performance data reported by EFI. After the Department's annual report was submitted, EFI management determined that a few categories needed adjustment. However, Department management further indicated that, going forward, all data would be reconciled between the two annual reports prior to submittal.

To ensure that the Legislature can appropriately determine whether the public is receiving a positive return on its investment in EFI, it is critical that the Legislature be provided complete and accurate data regarding EFI's performance in achieving the performance goals included in its annual contract with the Department.

**Recommendation:** We recommend that Department and EFI management enhance controls to ensure that Department and EFI annual reports accurately reflect EFI's performance in achieving the performance goals included in its annual contract with the Department.

## Finding 6: Background Screenings

As previously noted, State law<sup>21</sup> requires the Department to contract with an independent third-party to verify recipient compliance with the performance terms of economic development incentive agreements. The verification process necessitates that Department and non-Department personnel access proprietary and confidential business information.<sup>22</sup> Consequently, the terms of the Department contract with the independent third-party required third-party personnel undergo level 2 background screenings<sup>23</sup> prior to being granted access to recipient records. Additionally, State law<sup>24</sup> requires that all persons and employees<sup>25</sup> in positions of special trust, responsibility, or sensitive location undergo a level 2 background screening as a condition of employment and continued employment. According to Department records, 21 Department employees had access through Salesforce to recipient application, agreement, and claim records to review applications and approve the third-party's performance audit results and 28 third-party personnel had access to recipient agreements and claim records to conduct performance audits of businesses that received economic development incentives during the period July 2015 through February 2017.

According to Department personnel, Bureau of Human Resource Management personnel were to review the level 2 background screenings results located within the Department of Law Enforcement's secure e-mail inbox, obtain a screenshot of the inbox, indicate on the screenshot whether the screening results were acceptable, and record in People First<sup>26</sup> Department employee background screening dates for applicable Department management to view. Our audit procedures found that, for 6 of the 28 third-party personnel, Department records did not demonstrate that level 2 background screenings had been performed. For the other 22 third-party personnel, Department records did not evidence the results of the level 2 background screenings. Additionally, we noted that, for 16 of the 21 Department personnel, the Department had not recorded in People First the dates of the level 2 background screenings.

In response to our audit inquiry, Department management indicated that, based on a Department of Law Enforcement technical audit that found the Department did not adequately separate background screening results from other Department information, the Department had elected to have personnel within the Bureau of Human Resource Management review the background screenings and note whether backgrounds appeared appropriate, while the documentation of the background screening results was to be discarded.

Notwithstanding Department management's response, absent documentation, including complete and accurate People First records, evidencing the conduct and results of level 2 background screenings,

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<sup>21</sup> Chapters 2015-232 and 2016-066, Laws of Florida.

<sup>22</sup> Section 288.075(3) and (4), Florida Statutes.

<sup>23</sup> As defined in Section 435.04, Florida Statutes, level 2 background screenings include, but need not be limited to, fingerprinting for Statewide criminal history records checks through the Department of Law Enforcement, national criminal history records checks through the Federal Bureau of Investigation, and may include local criminal records checks through local law enforcement agencies.

<sup>24</sup> Section 110.1127(2)(a), Florida Statutes.

<sup>25</sup> For the purposes of background screenings and other requirements of Chapter 435, Florida Statutes, Section 435.02(2), Florida Statutes, defines employees to include persons who are contractors, licensees, or volunteers.

<sup>26</sup> People First is the State's Web-based human resource information resource system.

Department management cannot demonstrate that Department and third-party personnel with access to proprietary and confidential business information have appropriate backgrounds.

**Recommendation: We recommend that Department management ensure that Department records evidence that all Department and third-party personnel with access to proprietary and confidential business information are subject to level 2 background screenings and that the results of the screenings were appropriately considered.**

### **Finding 7: Conflicts of Interest**

State law<sup>27</sup> requires EFI to operate in the most open and accessible manner consistent with its public purposes and subjects the EFI President, senior managers, and Board members to certain statutory provisions<sup>28</sup> that specify, among other things, that:

- No officer or employee shall have or hold any employment or contractual relationship with any business entity or any agency which is subject to the regulation of, or is doing business with, an agency of which he or she is an officer or employee. Additionally, an officer or employee may not have or hold any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties.
- An officer may not vote on any matter that the officer knows would inure to his or her special private gain or loss.

As part of our audit, we performed inquiries of EFI management and requested and reviewed EFI records for 3 EFI Presidents, 15 senior managers, and 89 Board members who were employed or served during the period July 2015 through February 2017 to determine whether EFI controls promoted, and EFI records demonstrated, that senior management and Board members were free from any potential conflicts of interest. Our audit procedures disclosed that, while EFI had established a process requiring all Board members to annually complete a disclosure form indicating whether the Board member had any family or business relationship with any EFI officer, director, trustee, or key employee, EFI did not require any senior managers, including the EFI President, to complete a disclosure form. Additionally, EFI records did not include a disclosure form for 51 of the 89 Board members.

In response to our audit inquiry, EFI management indicated that the disclosure form had only been provided to new Board members during their initial onboarding, and that former staff were not aware that the disclosure form was to be updated annually. Subsequent to our audit inquiry, EFI management indicated that Board members and EFI staff at the Senior Vice President level and above would be required to complete a form disclosing any potential conflicts of interest.

Documentation demonstrating that the EFI President, senior managers, and Board members have disclosed any potential conflicts of interest would provide greater assurance that EFI operates in the most open and accessible manner consistent with its public purposes.

**Recommendation: To promote the appropriate disclosure of any potential conflicts of interest, we recommend that EFI enhance controls to ensure that the EFI President, senior managers, and Board members annually complete a conflict of interest disclosure form.**

<sup>27</sup> Section 288.901(b) and (c), Florida Statutes.

<sup>28</sup> Sections 112.313(1) - (8), (10), (12), and (15), 112.3135, and 112.3143(2), Florida Statutes.

## Finding 8: Salesforce Access Controls

Effective information technology (IT) access controls are intended to prevent and detect inappropriate access to IT resources and protect the confidentiality, integrity, and availability of data. Effective access controls include provisions to timely remove access privileges when access is no longer required. Additionally, Agency for State Technology (AST) rules<sup>29</sup> require agencies to administer access to systems and data based on documented authorizations and to conduct periodic reviews of access privileges.

Our examination of Salesforce records found that 21 Division personnel and 466 non-Division personnel, including 453 economic development incentive program recipients and 13 independent third-party personnel responsible for reviewing recipient compliance with economic development incentive agreement terms, had active Salesforce user access privileges during the period July 2015 through February 2017. As part of our audit, we evaluated Division controls for authorizing, reviewing, and deactivating Salesforce user access privileges and noted that improvements were needed. Specifically, we noted that:

- The Division had not established a process to document the authorization of Salesforce user access privileges. During the period July 2015 through February 2017, 12 Division personnel and 28 non-Division personnel, including 19 economic development incentive program recipients and 9 independent third-party personnel, were granted Salesforce user access privileges. In response to our audit inquiry, Division management indicated that, in lieu of a documented authorization process, Division management verbally provided access requests to the Division's Salesforce administrator. For independent third-party personnel, the contractor requested user access privileges either verbally or through e-mail and for economic development incentive program recipients, user access privileges were granted for the non-Division personnel listed on the project.
- The Division had not performed periodic reviews of user access privileges to ensure that the access privileges remained appropriate and necessary. In response to our audit inquiry, Division management indicated that, as of November 28, 2017, a process had been implemented to perform periodic reviews of user access privileges.
- The Division was unable to provide documentation evidencing the date Salesforce user access privileges were deactivated for the 5 Division employees who separated from Department employment during the period July 2015 through February 2017. As of February 28, 2017, 8 to 462 business days (an average of 235 business days) had elapsed since the employees' separation dates. In response to our audit inquiry, Division management indicated that Salesforce did not have the ability to capture user access deactivation dates and that user accounts locked after 90 days of inactivity. Notwithstanding Division management's response, the use of lockout controls that rely on a 90-day window of inactivity does not sufficiently mitigate the risk of inappropriate access to IT resources and unauthorized disclosure, modification, or destruction of Department data and IT resources.
- Division records indicated that the Division did not deactivate the Salesforce user access privileges for 2 independent third-party personnel until May 11, 2017, or 56 business days after being notified on February 23, 2017, that the access privileges were no longer needed. In response to our audit inquiry, Division management indicated that staff workloads contributed to the delay in deactivating the user access privileges.

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<sup>29</sup> AST Rules 74-2.003, Florida Administrative Code.

Documentation evidencing that user access privileges were properly authorized and that periodic reviews of user access privileges were conducted would provide the Division assurance that user access privileges are appropriate. Further, immediate deactivation of user access privileges when the access privileges are no longer necessary would limit the potential for unauthorized disclosure, modification, or destruction of Department data and IT resources.

**Recommendation:** To minimize the risk of compromising Department data and IT resources, we recommend that Division management ensure that Salesforce user access privileges are immediately deactivated upon Division personnel's separation from employment or upon notification from non-Division personnel management that the access privileges are no longer needed. Additionally, we recommend that Division management establish procedures requiring proper authorization be obtained and documented prior to granting Salesforce user access privileges and that periodic reviews of Salesforce user access privileges be performed and documented.

### **Finding 9: Security Controls – Logging and Monitoring**

Security controls are intended to protect the confidentiality, integrity, and availability of data and related IT resources. Our audit procedures disclosed that certain security controls related to the logging and monitoring of Salesforce activity need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising Department data and related IT resources. However, we have notified appropriate Division management of the specific issues. Without adequate security controls related to the logging and monitoring of Salesforce activity, the risk that inappropriate or unauthorized system activity, should it occur, may not be timely detected and resolved is increased.

**Recommendation:** We recommend that Division management strengthen certain security controls related to the logging and monitoring of Salesforce activity to better ensure that inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

### SELECTED DEPARTMENT ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected Department administrative activities and controls, including those related to purchasing cards.

### **Finding 10: Purchasing Card Controls**

As a participant in the State's purchasing card program, the Department is responsible for implementing key controls, including procedures for approving the issuance of purchasing cards; establishing single, daily, and monthly transaction limits for cardholders; and timely canceling purchasing cards upon a cardholder's separation from Department employment or when an employee no longer requires a purchasing card to perform their job duties. At February 6, 2017, the Department had 292 active purchasing cards and purchasing card charges totaled \$3,131,803 during the period July 2015 through February 2017.

The Department's *Purchasing Card Program Guidelines (Guidelines)* specified that, upon a cardholder's separation from Department employment, the cardholder's supervisor was to submit to the Purchasing Card Administrator (PCA) a cardholder termination form. The PCA was responsible for immediately canceling purchasing cards and for approving purchasing card single, daily, and monthly transaction

limits. As part of our audit, we reviewed the Department's *Guidelines* and evaluated the adequacy of Department controls for purchasing card transactions. Our audit procedures disclosed that improvements in Department purchasing card controls were needed. Specifically, we noted that:

- The Department's *Guidelines* did not provide for and the Department did not otherwise conduct periodic reviews of purchasing card limits. Department management indicated that, subsequent to our audit inquiry, the Department established a procedure to conduct periodic reviews of cardholder limits.
- Based on usage during the period July 2015 through February 2017, the transaction limits for 28 of the 292 cardholders were set too high. The limits for these 28 cardholders ranged from \$10,000 to \$50,000 for single transactions and from \$10,000 to \$125,000 for monthly transactions. However, 12 of the 28 cardholders had not incurred a single charge that exceeded 25 percent of their respective single transaction limits. Also, the maximum monthly purchases made by 17 of the 28 cardholders were less than 25 percent of their respective monthly transaction limits and the maximum monthly purchases made by the other 11 cardholders did not exceed 75 percent of their respective monthly transaction limits. In response to our audit inquiry, Department management indicated that the transaction limits were necessary to allow staff to quickly respond to Department needs. Notwithstanding the Department's explanation, as purchasing card limits can be promptly increased as needed, it was not evident that the higher limits were necessary for the cardholders' daily duties.
- The Department did not timely cancel the purchasing cards for 20 of the 66 cardholders who separated from Department employment during the period July 2015 through February 2017. The purchasing cards for the 20 cardholders were canceled 2 to 153 business days (an average of 30 business days) after the employees' separation dates. The purchasing cards for 2 of these cardholders were canceled by the PCA in February 2017, subsequent to our audit inquiry. Department management indicated in response to our audit inquiry that the PCA was not always notified when a cardholder separated from Department employment.

Although our audit tests did not disclose any charges incurred subsequent to the 20 cardholders' separation from Department employment, absent effective controls to timely identify cardholders who separate from Department employment, promptly cancel cards, and periodically monitor the reasonableness of purchasing card transaction limits, the risk of inappropriate purchasing card use is increased.

**Recommendation:** We recommend that Department management monitor the reasonableness of purchasing card transaction limits and promptly cancel purchasing cards upon a cardholder's separation from Department employment.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2017 through September 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of the Department of Economic Opportunity (Department) and Enterprise Florida, Inc. (EFI) focused on the administration of selected State economic development incentive programs and selected Department administrative activities. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, Department and EFI policies and procedures, and other guidelines, and interviewed Department and EFI personnel to obtain an understanding of the oversight and administration of selected State economic development incentive programs.

- Obtained an understanding of selected Salesforce information technology (IT) controls, assessed the risks related to those controls, evaluated whether selected general and application IT controls for Salesforce were in place, and tested the effectiveness of the controls.
- Performed inquiries of Division of Strategic Business Development (Division) management and examined Department records to determine whether the Department periodically reviewed Salesforce user access privilege records to verify the appropriateness of user access privileges.
- For the 12 Division employees and 28 non-Division personnel granted Salesforce user access privileges during the period July 2015 through February 2017, examined Department records to determine whether authorization for the access privileges granted was appropriately documented.
- For the 9 Division employees, including 5 Division employees that separated from Department employment, whose Salesforce user access privileges were determined by Department management to no longer be necessary during the period July 2015 through February 2017, examined Department and People First records to determine whether the Department timely deactivated the user access privileges.
- For 2 non-Division personnel with active Salesforce user access privileges as of February 28, 2017, examined Department records to determine whether the user access privileges were timely deactivated upon notification that the privileges were no longer needed.
- Examined Department records for the 12 Division employees granted Salesforce user access privileges during the period July 2015 through February 2017 to determine whether the access privileges granted were commensurate with the employee's job responsibilities.
- For the 12 Division employees whose Salesforce user access privileges remained active as of February 28, 2017, examined People First records to determine whether the employees had separated from Department employment prior to February 28, 2017.
- Examined Department records for the 21 Department employees who had Salesforce user access privileges during the period July 2015 through February 2017 to determine whether Department records demonstrated that the employees were subject to level 2 background screenings. Additionally, examined People First data for the 21 Department employees to determine whether the Department recorded in People First the dates the level 2 background screenings were conducted.
- Examined Department records for the 28 non-Department personnel contracted to review State economic development incentive program recipient claims during the period July 2015 through February 2017 to determine whether Department records demonstrated that the personnel were subject to level 2 background screenings.
- Examined Department records related to the Statement on Standards for Attestation Engagements No. 16 (SSAE) reports prepared for Salesforce, covering the period July 2015 through February 2017, to determine whether the Division ensured that the Salesforce controls relied upon were clearly and specifically addressed in the SSAE 16 reports.
- From the population of 154 economic development incentive applications for tax refunds, totaling \$95,780,000, approved during the period July 2015 through February 2017, examined Department and EFI records for 20 selected tax refund applications (18 QTI and 2 Brownfield), totaling \$36,197,000, to determine whether the applications were complete and timely and adequately reviewed to ensure that the applicant business met the requirements established by Chapter 288, Florida Statutes.
- From the population of 18 economic development incentive applications for cash grants, totaling \$36,000,000, approved during the period July 2015 through February 2017, examined Department and EFI records for 10 selected cash grant applications (7 QACF and 3 HIPI), totaling \$23,105,000, to determine whether the applications were complete and timely and adequately

reviewed by the Department and EFI to ensure that the applicant business met the requirements established by Chapter 288, Florida Statutes.

- From the population of 13 economic development incentive applications for Capital Investment Tax Credits (CITCs), approved during the period July 2015 through February 2017, examined Department and EFI records for 5 selected CIRC applications to determine whether the applications were complete and timely and adequately reviewed by the Department and EFI to ensure that the applicant business met the requirements established by Chapter 288, Florida Statutes, and Section 220.191, Florida Statutes.
- Examined Department and EFI records for the one semiconductor, defense, and space technology (SDST) tax exemption incentive award application approved during the period July 2015 through February 2017 to determine whether the application was complete and timely and adequately reviewed by the Department and EFI to ensure that the applicant business met the requirements established by Chapter 288, Florida Statutes, and Section 212.08(5), Florida Statutes.
- From the population of 17 SDST incentive award certification renewal requests, approved during the period July 2015 through February 2017, examined Department records for 5 selected SDST certification renewal requests to determine if the recertification request was complete and adequately reviewed to ensure that the applicant business continued to meet the requirements established by Chapter 288, Florida Statutes, and Section 212.08(5), Florida Statutes.
- From the population of 15 economic development incentive applications for tax refunds with statutory waivers, totaling \$2,463,000, approved during the period July 2015 through February 2017, examined EFI records for 4 selected applications, totaling \$530,000, to determine whether EFI established effective internal controls to ensure statutory waivers were sufficiently documented and justified, in writing, prior to approval.
- Examined Department records for 22 selected applications from the population of 80 incentive award applications identified by Department management as withdrawn during the period July 2015 through February 2017 to determine whether Department records evidenced the applicant's decision to withdraw. In addition, requested confirmation from the applicable applicant businesses to determine whether the businesses initiated the application withdrawals or otherwise stopped pursuing the incentive award applied for.
- From the population of 582 economic development incentive agreements for tax refunds, totaling \$325,856,500, active during the period July 2015 through February 2017, examined Department records for 25 selected tax refund agreements, totaling \$55,317,000, to determine whether the Department established effective internal controls to ensure that incentive agreements were appropriately executed and provided for performance requirements, including claw-back and sanction provisions if performance standards were not met.
- From the population of 153 economic development incentive agreements for cash grants, totaling \$757,164,936, active during the period July 2015 through February 2017, examined Department records for 25 selected cash grant agreements, totaling \$543,012,500, to determine whether the Department established effective internal controls to ensure that incentive agreements were appropriately executed and provided for performance requirements, including claw-back and sanction provisions if performance standards were not met.
- From the population of 84 administrative actions, totaling \$20,556,990, taken against incentive program recipients that did not meet performance standards during the period July 2015 through February 2017, examined Department records for 25 selected administrative actions, totaling \$15,983,712, to determine whether the Department took appropriate administrative actions when performance standards were not met.
- From the population of 323 incentive program award recipient claims, totaling \$24,239,974, submitted during the period July 2015 through February 2017, examined Department records for

25 selected incentive program award recipient claims, totaling \$12,446,965, to determine whether the Department properly monitored the third-party contractor's review of program recipient claims to ensure that recipients complied with applicable laws and incentive award agreement terms, including performance standards.

- Examined Department records for the two incentive program recipient claims review contracts, totaling \$2,080,388, active during the period July 2015 through February 2017, to determine whether the Department properly monitored the contractor's performance to ensure compliance with applicable laws and contract terms, including performance standards, and took appropriate administrative actions when noncompliance was noted.
- From the population of 11 contracts, totaling \$335,000,189, between the Department and EFI and active during the period July 2015 through February 2017, examined Department and EFI records for 4 selected contracts, totaling \$129,325,000, to determine whether the Department properly monitored EFI compliance with applicable laws and contract terms, including performance standards, and took appropriate administrative actions when performance standards were not met by EFI.
- Compared EFI's performance results as noted in the Department's 2015-16 fiscal year annual report to the performance results reported in EFI's 2015-16 fiscal year annual report to evaluate the accuracy and completeness of the reported results.
- To determine whether Division expenditures were in correct amounts and adequately documented; made in accordance with applicable laws, rules, and contract terms; and properly authorized and approved, we:
  - Examined Division records for 22 selected expenditure transactions, totaling \$828,031, from the population of 51 expenditure transactions, totaling \$976,978, made during the period July 2015 through February 2017 and associated with two incentive program recipient claims review contracts.
  - Examined Division records for 21 selected EFI-related expenditure transactions, totaling \$89,291,065, from the population of 70 EFI-related expenditure transactions, totaling \$163,754,050, associated with the nine active EFI contracts that had expenditures during the period July 2015 through February 2017.
- Examined EFI records to determine whether EFI had established a process during the period July 2015 through February 2017 to appropriately identify and communicate to businesses all available incentive programs.
- Selected 10 counties from the population of 52 counties with populations greater than 25,000 during the period July 2015 through December 2016, and examined Department records to determine whether EFI ensured that by September 30, 2015, and September 30, 2016, each of the 10 counties provided EFI a brief overview of the strengths, services, economic development incentives offered, and identified what industries the county was encouraging to locate or relocate to its area as required by Section 288.912, Florida Statutes.
- Examined EFI records for the 7 EFI Board of Directors (Board) meetings held during the period July 2015 through February 2017 to determine whether EFI ensured that the EFI President, senior managers, and Board members timely and properly disclosed possible direct and indirect conflicts of interest.
- Examined EFI records and performed inquiries of EFI management regarding the 89 Board members who served and the 3 EFI Presidents and 15 senior management personnel employed during the period July 2015 through February 2017 to determine whether EFI ensured that Board members, EFI Presidents, and senior managers timely and properly filed conflict of interest forms disclosing possible direct and indirect conflicts of interest.

- Examined EFI records and performed inquiries of EFI management regarding the 74 Board members who served during the 2015 calendar year to determine whether EFI had established a process to ensure that Board members filed disclosures of financial interests by July 1, 2016, in accordance with State law.
- Examined 2015-16 fiscal year EFI financial records to determine whether EFI had established effective internal controls to ensure that State funding was matched with private sector funding equal to at least 100 percent of the State operational funding and that EFI established and adopted an operating budget, prior to the beginning of the fiscal year, pursuant to Section 288.904(1)(c), Florida Statutes.
- Analyzed Salesforce data related to incentive award applications approved during the period July 2015 through February 2017 to determine whether the Department's mechanism for capturing application information was sufficient to ensure that applicants were timely notified if applications were deemed incomplete and of approvals and disapprovals of incentive award applications.
- Analyzed data related to the receipt and review of incentive award applications during the period July 2015 through February 2017 to determine whether information reported in EFI's 2016 annual incentives report was sufficiently supported and whether EFI established effective internal controls to ensure that EFI properly documented communications with potential businesses, including the date EFI was initially contacted, received an application, and provided the application to the Department.
- Reviewed applicable laws, rules, and other State guidelines to obtain an understanding of the legal framework governing Department operations.
- Observed, documented, and evaluated the effectiveness of selected Department processes and procedures for:
  - Purchasing activities and the administration of Department contracts. During the period July 2015 through December 2016, the Department was responsible for 75 active contracts totaling \$308,788,763.
  - The administration of purchasing cards in accordance with applicable guidelines. At February 6, 2017, the Department had 292 active purchasing cards.
  - The administration of Department travel in accordance with State law and other applicable guidelines. During the period July 2015 through December 2016, Department travel expenditures totaled \$1,120,279.
  - The acquisition and management of real property leases in accordance with State law, Department of Management Services rules, and other applicable guidelines. At June 30, 2016, the Department was responsible for 100 active real property leases.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Managements' responses are included in this report under the heading **MANAGEMENTS' RESPONSES**.

## ***AUTHORITY***

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Section 11.45(2)(f), Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Section 11.45(3)(i), Florida Statutes, provides that the Auditor General may conduct an operational audit of Enterprise Florida, Inc. Pursuant to these provisions, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA  
Auditor General

# EXHIBIT A

## SELECTED STATE ECONOMIC DEVELOPMENT INCENTIVE PROGRAMS

### Tax Refunds

- **Qualified Target Industry (QTI) - Section 288.106, Florida Statutes**
  - Purpose is to attract new high-quality, high-wage jobs for Floridians in target industries.
  - More than 70 percent of incentives are QTI.
  - \$3,000 tax refund per new job created and jobs must be more than 115 percent of the county's average annual wage.
  - Job creation is to be verified before tax refund is given to a company.
- **Qualified Defense and Space Contractor Tax Refund - Section 288.1045, Florida Statutes**
  - Purpose is to spur job creation in the State's defense and space industries.
  - Serves to attract new high-quality, high-wage jobs for Floridians in the defense and space industries.
  - Tax refunds are to be made to qualifying, pre-approved businesses bidding on new competitive contracts, or consolidating existing defense or space contracts.
  - Comprises less than 2 percent of all economic development incentives approved since 1995.
- **Brownfield Redevelopment Bonus Refunds - Section 288.107, Florida Statutes**
  - Purpose is to spur job creation and capital investment in designated Brownfield areas in the State.
  - Brownfield areas are designated by local governments due to actual or perceived environmental contamination or blight.
  - The Brownfield Redevelopment Bonus is available to any eligible company, including those that do not fall under one of the targeted industries.
  - Approved applicants receive tax refunds up to \$2,500 for each job created.
  - Comprises less than 3 percent of all economic development incentives approved since 1995.

### Tax Credits

- **Capital Investment - Section 220.191, Florida Statutes**
  - Purpose is to spur capital investment in the State's high-impact sectors (as defined in Florida Statutes).
  - Used to attract and grow capital-intensive industries in the State: clean energy, biomedical technology, financial services, information technology, silicon technology, transportation equipment manufacturing, or a corporate headquarters facility.
  - Annual credit, provided for up to 20 years, against the corporate income tax.
  - Comprises less than 2 percent of all economic development incentives approved since 1995.

### Tax Exemptions

- **Semiconductor Defense and Space Technology - Section 212.08, Florida Statutes**
  - Purpose is to support technology-based companies as they invest in critical advanced technology machinery and equipment, and support the retention and growth of these industries.
  - Businesses involved in semiconductor, defense, and space technology production are eligible to apply for a sales tax exemption permit, valid for 2 years, on the purchase of machinery and equipment.
  - The majority of companies using this tax exemption bid on government defense and space contracts.

### Cash Grants

- **High-Impact Performance Incentive - Section 288.108, Florida Statutes**
  - Purpose is to spur capital investment and job creation in the State's high-impact sectors. Reserved for major facilities operating in designated portions of high-impact sectors.
  - Comprises less than 1 percent of all economic development incentives approved since 1995.
- **Quick Action Closing Fund - Section 288.1088, Florida Statutes**
  - Tool used to finalize negotiations for highly competitive projects.
  - Closing Fund awards are to be paid out after the business has made a substantial capital investment toward tangible personal property tied to the project.
  - Sanctions and clawback penalties are to be included in each contract to protect taxpayer investments.
  - Comprises less than 7 percent of all economic development incentives approved since 1995.
- **Innovation Incentive Program - Section 288.1089, Florida Statutes**
  - Purpose is to attract major innovation businesses to spur development of key clusters.
  - Program is to allow the State to compete effectively for high-value research and development, innovation business, and alternative and renewable energy projects.
  - Long-term investments made by the State in industry clusters critical to the State's economic diversification.
  - Comprises less than 1 percent of all economic development incentives approved since 1995.

Source: Department records.

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## MANAGEMENTS' RESPONSES

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March 12, 2018

Sherrill F. Norman, Auditor General  
Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman,

On behalf of the Florida Department of Economic Opportunity (DEO) and Enterprise Florida, Inc. (EFI), we thank you for your recent recommendations for the State Economic Development Incentive Programs. It is our shared goal to ensure that Florida's economic development incentive programs are highly accountable and protect taxpayers' hard-earned money.

Under Governor Scott's leadership, the incentive process has been reformed requiring companies to meet strict performance metrics, including total jobs and capital investment, before receiving any payments. Our teams are working closer together than ever before to achieve these ends. DEO and EFI continuously meet to discuss the entire process for awarding a business an economic development incentive, from its initial application to the final incentive payment. Both DEO and EFI stay actively engaged to monitor and improve the process.

In the last year, EFI has taken a more active role in ensuring compliance by assisting DEO in collecting data from companies and communicating with noncompliant companies. Both teams are working together to take a more assertive, concurrent approach in communicating with local communities on the recruitment of businesses statewide within our targeted industries.

Additionally, our teams are considering opportunities to collaborate further by establishing resources in data entry so that information can be shared between our organizations in real time.

At the state level, economic development is a network of partners and organizations that works with and focuses on specific sectors of Florida's economy. We are proud of the work our teams are doing together to make our state competitive in attracting businesses and ensuring Florida remains the best state in the U.S. to create, relocate or expand a business.

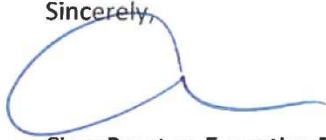
Florida Department of Economic Opportunity | Caldwell Building | 107 E. Madison Street | Tallahassee, FL 32399  
850.245.7105 | [www.floridajobs.org](http://www.floridajobs.org)  
[www.twitter.com/FLDEO](http://www.twitter.com/FLDEO) | [www.facebook.com/FLDEO](http://www.facebook.com/FLDEO)

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Sherrill F. Norman, Auditor General  
March 12, 2018  
Page 2 of 2

We appreciate the opportunity to review your recommendations and look forward to continuing to work together to improve Florida's economic development incentive process.

Sincerely,



Cissy Proctor, Executive Director  
Florida Department of Economic Opportunity



Pete Antonacci, CEO  
Enterprise Florida, Inc.

**Florida Department of Economic Opportunity and Enterprise Florida, Inc., State Economic Development  
Incentive Programs and Selected Department Administrative Activities Operational Audit Response to  
Preliminary and Tentative Findings**

**Finding 1 – Economic Development Incentive Application Reviews**

**Auditor Recommendation:** We recommend that Division and EFI management enhance economic development incentive application review and approval controls to ensure that Division and EFI records demonstrate that applications are reviewed and processed in accordance with State law.

**Department of Economic Opportunity (DEO) Response:**

Although not required by statute, the Division is considering strategies to improve the documentation of inquiries and determinations of whether State and local permits are needed and whether applicable permits can be waived.

Economic Development projects can be complex and involve many partners, including EFI, local economic development organizations and local governments. Division staff is laser focused on being good stewards of our taxpayers' dollars and detailed due diligence is conducted for each project. Additionally, staff ensures that each project is thoroughly evaluated and provides a return on investment to the State. As a result, there are numerous communications during the life of a project and these communications are conducted either via email or telephone. Division staff may communicate directly with the applicant or through EFI. Regardless, documenting each communication is burdensome, time consuming, and reduces the Division's efficiency. Any increased documentation adds an additional layer of bureaucracy impeding our ability to efficiently achieve our economic development mission. Although such documentation is not required by statute, we are evaluating strategies for implementing the most efficient documentation procedures that are consistent with the goals explained above.

**EFI response:**

EFI will work with DEO to evaluate opportunities to improve the process to ensure that applications are administered in accordance with State law.

**Finding 2 – Economic Development Incentive Application Data**

**Auditor Recommendation:** We recommend that EFI and Division management work collaboratively to consistently and efficiently share Salesforce application data. Additionally, we recommend that EFI management enhance controls to ensure that staff efforts to contact businesses contemplating an expansion in or relocation to the State are adequately documented, Salesforce accurately reflects the dates applications are received and provided to the Department for further review, and application dispositions are accurate. We also recommend that Division management ensure that application data is timely recorded in Salesforce.

**Department of Economic Opportunity (DEO) Response:**

A continuous improvement event was held in December 2017 to streamline the process from the initial application to approval of payment to the client. The event brought the Division of Strategic Business Development, EFI and RSM together to work on increasing the total client experience. During the event, it was discussed that a connection between all mentioned parties would bring continuity, expedience and accuracy to the process with real time metrics. The Division is currently validating the funding possibilities to achieve this connection. The Division will continue to work with EFI to enhance the communication and sharing of data even without the seamless connection.

**EFI response:**

EFI will coordinate with DEO to develop an integration of the Salesforce databases to effectively and accurately communicate incentive application status and data. EFI has participated in continuous improvement workshops with DEO as recently as December 2017.

EFI will work with DEO to better track application data across both entities. EFI will enhance controls to ensure that staff efforts to contact businesses contemplating expansion are documented.

**Finding 3 – Prorated QTI Tax Refunds**

**Auditor Recommendation:** To ensure that tax refunds are provided in accordance with State law, we recommend that Division management enhance controls for reviewing and approving prorated QTI tax refunds. Additionally, we recommend that Division management document efforts to ensure that QTI economic development incentive agreements comply with current State law and Department procedures governing the application for and award of tax refunds.

**Department of Economic Opportunity (DEO) Response:**

The Division concurs with the finding that there was an overpayment in the amount of \$9,109. In response to this finding, the Division immediately reached out to the client and explained the overpayment. The client is aware that the next payment of funds will have the \$9,109 overpayment deducted.

Although the Division does consider state laws when reviewing incentive claims, it did not have formal documented procedures in place to prove that the state laws were reviewed. Since the audit, the Bureau of Compliance and Accountability has taken the proper steps to ensure that incentive claims are formally documented and that state laws are considered. The Division has added a step to the current checklist for the incentive review process for review of current state law.

#### **Finding 4 – Community Overviews of Economic Development Incentives**

**Auditor Recommendation:** We recommend that EFI management work with counties to ensure that counties timely submit to EFI the economic development incentives overviews and information required by State law.

**EFI response:**

EFI management will work with the EDC of each county or regional counties to ensure their timely submission to EFI of the economic development incentives overviews and information required by law. This information will be uploaded to Salesforce to ensure compliance.

#### **Finding 5 – Reporting of Performance Results**

**Auditor Recommendation:** We recommend that Department and EFI management enhance controls to ensure that Department and EFI annual reports accurately reflect EFI’s performance in achieving the performance goals included in its annual contract with the Department.

**Department of Economic Opportunity (DEO) Response:**

The Department has implemented further steps to ensure that published performance numbers are accurate. All numbers going into the annual report will be approved by both DEO and EFI. Prior to publishing the DEO annual report, the Division of Strategic Business Development will work closely with EFI to ensure all numbers are accurate. Once both teams have reviewed the document and approved the statistics and any additional content, the document will be shared with communications staff and leadership teams at both organizations. A formal request of approval from EFI leadership will be made before publishing EFI performance data.

**EFI response:**

EFI has hired a new Contracts and Grants Manager responsible for this report and implemented new controls to ensure accurately reported results. EFI will coordinate efforts with DEO to ensure consistent results are reported as required by law.

#### **Finding 6 – Background Screenings**

**Auditor Recommendation:** Department management should ensure that Department records evidence that all Department and third-party personnel with access to proprietary and confidential business information are subject to level 2 background screenings and that the results of the screenings were appropriately considered.

## **Department of Economic Opportunity (DEO) Response:**

It is the Department's policy that all third-party personnel who will have access to the Department's confidential databases are required to have Level II background screenings conducted prior to hire date. Although records of Level II background screenings were not produced at the time of the audit, the screenings were performed. The records were not available due to a previously performed audit by the Florida Department of Law Enforcement (FDLE) that cited concerns in storing the records on Department servers. Therefore, in complying with audit concerns, records were discarded causing a gap in backup data proving level II screenings were conducted.

The results of all Level II background screens are sent to the Department by FDLE via a secured and confidential "inbox" that is only accessible by two employees within the Bureau of Human Resource Management. When a notification is received, it is reviewed and a screen shot printed with the applicant name and TCN number. A copy of the screen shot of the inbox is given to the manager who requested the screening with an indication of "ok" if there were no criminal history results noted. If there was a criminal history, the manager would be directed to HR to review the results and make a determination. The determination would then be coordinated with the General Counsel's office. Once approved, the Division submits an Information Systems Security Agreement/Confidentiality form for the third-party to be granted access to the Salesforces/DEO SharePoint site and a DEO email address is established. Those documents are filed and maintained within the requesting Division.

Human Resource Management does not maintain a "historical stored" database of all Level II background screening results. However, a master log of all Level II background screenings conducted is maintained.

## **Finding 7 – Conflicts of Interest**

**Auditor Recommendation:** To promote the appropriate disclosure of any potential conflicts of interest, we recommend that EFI enhance controls to ensure that the EFI President, senior managers, and Board members annually complete a conflict of interest disclosure form.

### **EFI response:**

EFI's president, senior managers and members of the board of directors are all subject to Section 288.901, Florida Statutes, and to various parts of Florida's Code of Ethics. Among these are requirements relating to conflicts of interest, voting conflicts and financial disclosure. EFI board members, senior managers and its President are subject to prohibitions on doing business with EFI and entering into conflicting employment or contractual relationships. In addition, these individuals must complete an annual financial disclosure form that is filed with the Commission on Ethics and board members are required to disclose conflicts relating to any vote coming before the board that may inure to the private gain or loss of the board member, their relative, business associate or principal by whom they are retained.

As requested by the Auditor General however, EFI board members, president and senior managers will annually execute a form identifying board member personal business and family relationships.

## Finding 8 – Salesforce Access Controls

**Auditor Recommendation:** To minimize the risk of compromising Department data and IT resources, we recommend that Division management ensure that Salesforce user access privileges are immediately deactivated upon Division personnel’s separation from employment or upon notification from non-Division personnel management that the access privileges are no longer needed. Additionally, we recommend that Division management establish procedures requiring proper authorization be obtained and documented prior to granting Salesforce user access privileges and that periodic reviews of Salesforce user access privileges be performed and documented.

### Department of Economic Opportunity (DEO) Response:

The Database Administrator has identified the steps below to remedy the lack of documentation for logging activation and deactivation of Salesforce users. The Database Administrator maintains an Activation/Deactivation Checklist. This log is signed by both the Database Administrator and the Division Director, and is used for both activation and deactivation. There has also been a field added to Salesforce by the Database Administrator that is populated at the time of deactivation (see below). The signed forms are filed and housed with the Database Administrator.

### Addition to Sales Force:

Additional Information	
Deactivated Date 	<input type="text" value="2/20/2018"/> [ 2/20/2018 ]
Level II Background Required	--None-- 
Level II Background Completion Date	<input type="text" value="2/20/2018"/> [ 2/20/2018 ]

## Finding 9 – Security Controls – Logging and Monitoring

**Auditor Recommendation:** We recommend that Division management strengthen certain security controls related to the logging and monitoring of Salesforce activity to better ensure that inappropriate or unauthorized system activity, should it occur, is timely detected and resolved.

### Department of Economic Opportunity (DEO) Response:

The Database Administrator has worked to strengthen certain security controls related to the logging and monitoring of Salesforce activities to better ensure that inappropriate or unauthorized system activity will be timely detected and resolved.

## **Finding 10 – Purchasing Card Controls**

**Auditor Recommendation:** We recommend that Department management monitor the reasonableness of purchasing card transaction limits and promptly cancel purchasing cards upon a cardholder’s separation from Department employment.

### **Department of Economic Opportunity (DEO) Response:**

The Department has updated its purchasing card procedures to include a semi-annual review of purchasing card transaction limits. This procedure will review cardholders whose transactions for the period are 25% or less of the cardholder’s approved limits. This will help to ensure that cardholder limits are either justified based upon business need, or adjusted to a level that is commensurate with use.

The Department has updated its purchasing card procedures to include a daily review of all separation information that is available to the Purchasing Card Administrator, and a monthly reconciliation of active cardholders to active employees. This will ensure that purchasing cards are cancelled as separations occur, with a reconciliation to ensure no separations were missed.