

**SPECIAL REVIEW OF JOB GROWTH INCENTIVE PROGRAM
Agreement with Hernon Manufacturing, Inc.**

REPORT NO. 103118

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DIVISION OF INSPECTOR GENERAL
Grant Maloy, Clerk of the Circuit Court and Comptroller
Seminole County, Florida

November 30, 2018

To: The Honorable Chairman and Members of the Board of County Commissioners

We have completed the enclosed Special Review of Job Growth Incentive Program Agreement with Herson Manufacturing, Inc.

We would like to acknowledge the Office of Economic Development & Community Relations for their assistance with the review.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Wm Carroll".

William Carroll, CPA, CFE, CIG
Inspector General
Division of the Inspector General

Approved by:

A handwritten signature in black ink, appearing to read "Grant Maloy".

Grant Maloy
Clerk of the Circuit Court and Comptroller
Seminole County Florida



Special Review Report No. 103118
Job Growth Incentive Program
Hernon Manufacturing, Inc.

GRANT MALOY
CLERK OF THE CIRCUIT COURT AND COMPTROLLER

William Carroll, CPA, CFE, CIG
Inspector General

Auditor Assigned:
Viola Saine, CPA

Table of Contents

INTRODUCTION

Background.....1

Objectives1

Scope.....2

Overall Evaluation.....2

SUPPORTING SCHEDULE

Schedule of Contract Compliance3

INTRODUCTION

Background

The Seminole County Code of Ordinances, Chapter 218 – Publicity and Promotion provides the basis for Job Growth Incentive Program (JGI) of the county. In October 2001, the Seminole County Board of County Commissioners (BCC) established this program to remain competitive by either attracting new business or encouraging the expansion of the existing small and large businesses within the area.

Hernon Manufacturing, Inc. (Hernon), a worldwide company was established in 1989 and expanded its operations located at Sanford. The company produces high performance eco-friendly adhesives, sealants, processing solutions and dispensing equipment. On August 26, 2014, the county awarded Hernon \$40,000 with agreement to create 20 permanent jobs and to spend at least Two Million and NO/100 dollars (\$2,000,000) on expanding the current facility, plus installation of new equipment.

Objectives of Review

This special review was performed to determine compliance with the terms and conditions of the job growth incentive program agreement, and applicable rules, laws and regulations.

Hernon as a grantee of the incentive award agrees to:

- Create 20 permanent jobs with an average annual salary of \$41,278;
- Spend additional \$2 million capital to expand current facility and new equipment;
- Provide a performance bond or letter of credit for \$40,000 as security;
- Report job creation and investment annually; and,
- Announce job vacancies locally, and to CareerSouce Central Florida and Community Services Department.

Scope and Methodology

The scope of this limited review included the following:

- The JGI agreement between the company and the county;
- The County's Code of Ordinances, policies, procedures and other applicable laws, and regulations;
- Examination of company's annual performance reports and its supporting payroll, investment and other documentation;
- Research online to see company's profile, status, corporate public filings and property construction and acquisition; and,
- Interview of employees.

Overall Evaluation

Hernon is in compliance with terms of the agreement. The company's business performance accomplished way above the contract requirements.

Although Hernon was only required to create twenty (20) permanent jobs with an average annual salary of \$41,278, we noted that thirty-five (35) jobs were created. Twenty (20) jobs had an average annual salary of \$44,538. This satisfied the requirement of the contract for job creation.

The company invested \$2.5 million by constructing a new office building and buying new machinery and equipment. An irrevocable letter of credit for \$40,000 from Fifth Third Bank was given as security. The letter of credit expires on December 31, 2018. The company timely submitted the four (4) Annual Performance Reports.

The requirements to notify the county's Community Services Department and CareerSource Central Florida for job vacancies, and to advertise locally are minor issues that should be addressed in future reporting.

From August 2014 to July 2018, the company hired seventy-seven (77) new employees with an estimated accumulated payroll of over \$5 million. Thirty-one (31) out of seventy-seven (77) were employed for two or more years. This satisfied the requirement of sustaining the jobs for twenty-four (24) months within a forty-eight (48) month period.

Based on Hernon's compliance with the agreement, we recommend that the county close-out the contract and release the irrevocable standby letter of credit. The Schedule below high-lights compliance with the terms and condition of the contract.

Schedule of Contract Compliance

| Contract Requirements: | Required | Company Reported | Per Audited |
|-------------------------------|-----------------|-------------------------|---------------------|
| (1) Job Creation | 20 | 31 | 35 |
| (2) Ave. Annual Salary | 41,278 | 40,357 | 36,521 ¹ |
| (3) Capital Investment | 2,000,000 | 2,500,000 | 2,500,000 |
| (4) Letter of Credit | 40,000 | 40,000 | 40,000 |
| (5) Annual Performance Report | 4 | 4 | 4 |

¹ Top 20 high paying jobs had an average annual salary of \$44,538 that satisfied the salary requirement.