



Hillwood Master Disposition & Development Agreement Audit - #809 Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Hillwood Master Disposition and Development Agreement between the City of Jacksonville and Hillwood Company.

In January 2009, the City issued a request for proposals to solicit companies and organizations interested in acting as the Master Developer of approximately 4,499 acres of City property at Cecil Commerce Center. In June 2010, Ordinance 2010-352-E was enacted and the City approved Hillwood as the Master Developer. The contract referred to as the “Hillwood Master Disposition and Development Agreement” was executed in September 2010 giving Hillwood the exclusive right to purchase and develop certain parcels of the Cecil Commerce Center. The Office of Economic Development is responsible for overseeing the agreement for the City. This project is referred to as “AllianceFlorida.”

All proceeds received in accordance with the Hillwood Master Disposition and Development Agreement are deposited into the Cecil Commerce Center Trust Fund. These funds are to be spent on the development of the Cecil Commerce Center.

What CAO Found

The Office of Economic Development is collecting and depositing revenues received in connection with the Hillwood Master Disposition and Development Agreement in a proper, accurate, and timely manner. Additionally, the City and the Master Developer (Hillwood) are complying with the terms set forth in the Master Disposition and Development Agreement. However, we did note that although the Office of Economic Development reviews the calculations on the spreadsheet Hillwood provides on a quarterly basis, the Office of Economic Development has never verified Hillwood’s expenses to source documentation to confirm accuracy and existence.

What CAO Recommends

We recommend that the City annually audit or perform a detailed review of Hillwood’s records in connection with the additional consideration payments as allowed per the Master Disposition and Development Agreement.

Revenue earned by the City in connection with the Hillwood Master Disposition and Development Agreement as of April 30, 2017:

Revenue Description	Amount
Revenue from Sale of Land	\$ 1,861,101
Benchmark Extension Fees	\$ 1,000,000
Additional Consideration Payments	\$ 1,528,446
Total Revenue	\$ 4,389,547



Council Auditor's Office

Hillwood Master Disposition & Development Agreement Audit

December 20, 2017

Report #809

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EXECUTIVE SUMMARY

AUDIT REPORT #809

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



December 20, 2017

Report #809

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Hillwood Master Disposition and Development Agreement between the City of Jacksonville and Hillwood Company. In January 2009, the City issued a request for proposals to solicit companies and organizations interested in acting as the Master Developer of approximately 4,499 acres of City property at Cecil Commerce Center. In June 2010, Ordinance 2010-352-E was enacted and the City approved Hillwood Corporation as the Master Developer. The contract referred to as the “Hillwood Master Disposition and Development Agreement” (HMDDA) was executed in September 2010 giving Hillwood the exclusive right to purchase and develop certain parcels of the Cecil Commerce Center. Having exclusive rights means that, unless otherwise listed in the contract, the City is obligated to sell parcels of land for the purpose of development only to Hillwood. The Office of Economic Development (OED) is responsible for overseeing the agreement for the City. This development project is referred to as “AllianceFlorida.”

As of April 30, 2017, four buildings had been or were in the process of been constructed in connection with the HMDDA. The General Electric and the FedEx building were complete while the Amazon and a speculative building were being constructed.

The City has received a total of \$4,389,547 in revenue from Hillwood in connection with the development of Cecil Commerce Center as of April 30, 2017. All proceeds received were deposited into the Cecil Commerce Center Trust Fund. See table below for detail:

Revenue Description	Amount
Sale of Land for General Electric Building	\$ 356,427
Sale of Land for FedEx Building	404,988
Sale of Land for Speculative Building	320,590
Sale of Land for Amazon Building	779,096
Total revenue from sale of land to Hillwood	\$ 1,861,101
Benchmark Extension Fees (1)	1,000,000
10% Additional Consideration paid to the City (2)	1,528,446
Total revenue received in connection with the HMDDA	\$ 4,389,547

- (1) Hillwood made two payments of \$500,000 each to the City to extend the completion deadline of required performance benchmarks. The contract allowed Hillwood to twice pay \$500,000 to extend individual deadlines by one year to prevent the termination of the agreement.
- (2) This is an additional consideration payment received by the City which was triggered when Hillwood sold the General Electric building to the end user. This payment was in accordance with the HMDDA which states that the City will receive an additional consideration payment equal to 10% of the industrial project net proceeds received by the developer from the development and sale of any industrial use building.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether revenues received in connection with the HMDDA were collected, deposited, and recorded in a proper, accurate, and timely manner.
2. To determine whether the Office of Economic Development and Hillwood were complying with the terms set forth in the HMDDA.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit was September 1, 2010 through April 30, 2017. The focus of the audit is the collection of revenue generated from the sale and development of parcels located in the Cecil Commerce Center as well as OED and Hillwood's compliance with the required performance benchmarks and other stipulations included in the HMDDA. We performed the following audit procedures to reach our conclusions.

Objective 1:

We interviewed employees from the Office of Economic Development and obtained a listing of all parcels available for purchase by Hillwood, which we verified against the HMDDA. Then, we identified all parcels already sold to Hillwood by searching in the Property Appraiser database for the current and past owners of each parcel included in the agreement. For each parcel sold to Hillwood, we confirmed that the City received consideration consistent with the HMDDA and that the payments were accurate by reviewing their respective closing statements and other applicable supporting documentation. We also identified all developed parcels sold by Hillwood to end users and verified that the City received a percentage of the profit made by Hillwood from the sale in accordance with the HMDDA. Furthermore, we verified that the additional consideration payment received by the City was accurately calculated by reviewing the closing statements and the supporting documentation of a randomly selected sample of expenditures incurred by Hillwood during the construction of the buildings. We also verified that all payments were timely and accurately recorded in the accounting system.

Objective 2:

To test compliance with performance benchmarks, we visited the Cecil Commerce Center and confirmed that Hillwood had a marketing center on site, and had posted marketing signs including a monument sign on several parcels available for development. We also confirmed that Hillwood had only developed parcels included in Phase 1 of the HMDDA, which is the only phase which they are currently eligible to develop. We physically searched for any major capital project in the area to determine whether the City was paying for capital expenditures that were the responsibility of Hillwood. Finally, we obtained from the Office of Economic Development the supporting documentation showing the number of square feet of building space already developed to confirm that Hillwood had met the performance benchmarks of developing at least 800,000 ft² of new building space by 09/15/2015 and 1,200,000 ft² of new building space by 9/15/2017. For any performance benchmark not met on time, we confirmed that Hillwood paid the City an extension fee of \$500,000.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit 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.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Office of Economic Development, via Kirk Wendland, Economic Development Officer in a memorandum dated March 8, 2018.

AUDIT CONCLUSIONS

By Objective:

1. We found that revenues received in connection with the HMDDA were collected, deposited, and recorded in a proper, accurate, and timely manner.
 2. We found that the Office of Economic Development and Hillwood are complying with the terms set forth in the HMDDA.
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OVERALL ISSUE

Overall Internal Control Weakness 1 “No Audit of Hillwood’s Records”

Per the HMDDA, Hillwood is required to pay the City 10% additional consideration associated with the net proceeds from the sale or lease of industrial use parcels and 50% additional consideration associated with the net proceeds from mixed use parcel sales, and the City is allowed to audit the records of these payments once a year. Per the Office of Economic Development, they review the calculations on the quarterly reports provided by Hillwood for reasonableness and mathematical accuracy. However, the Office of Economic Development has never audited Hillwood’s records to verify the accuracy and existence of Hillwood’s expenses.

The City received an additional consideration payment of \$1,528,446 in June 2015, which had not been audited to test for accuracy as of April 30, 2017. Not auditing Hillwood’s records in connection with the additional consideration payment increases the risk of an underpayment to the City not being detected.

Recommendation to Overall Internal Control Weakness 1

We recommend that the City audit or perform a detailed review of Hillwood’s records annually as allowed per the HMDDA, even if there is no additional consideration payment during the year, since it will make it easier to review once there is a distribution.

Auditee Response to Overall Internal Control Weakness 1

Agree Disagree Partially Agree

The Office of Economic Development will request copies of additional supporting documentation for development costs shown on Hillwood's quarterly reports submitted in future periods. The supporting documentation will be reviewed for reasonableness and agreed to the summary reports. The level of development and sales activity, along with management discretion, will be used to determine the need for and timing of audits or reviews.

AUDIT OBJECTIVE #1

To determine whether revenues received in connection with the HMDDA were collected, deposited, and recorded in a proper, accurate, and timely manner.

We did not have any findings for this audit objective.

AUDIT OBJECTIVE #2

To determine whether the Office of Economic Development and Hillwood were complying with the terms set forth in the HMDDA.

We did not have any findings for this audit objective.

We appreciate the assistance and cooperation we received from the Office of Economic Development throughout the course of this audit.

Respectfully submitted,

Kyle S. Billy

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