




# Memorandum

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To: The Honorable Carlos Alvarez, Mayor, Miami-Dade County  
The Honorable Chairman Bruno A. Barreiro and  
Members, Board of County Commissioners, Miami-Dade County

From:  Christopher Mazzella, Inspector General

Date: July 19, 2007

Subject: Executive Summary and Transmittal of the OIG's Final Audit Report on the *Miami-Dade Aviation Department's Agreements with American Sales and Management Organization Corp. for General Aeronautical Services Permits P-324 and P-3053 and Security Services Permits SP-2412 and SP-2924*  
Ref. IG06-71

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Attached please find the Office of the Inspector General's (OIG) Final Audit Report on the above-captioned subject. The primary purpose of the OIG audit was to determine if the American Sales and Management Organization Corp. (ASMO) has accurately and timely reported its gross revenues and promptly paid the resulting percentage fees to the Miami-Dade Aviation Department (MDAD) from the general aeronautical and security services that it provided at Miami International Airport (MIA) to its main customer, American Airlines (AA), for the period January 1, 2005 through December 31, 2006.

This audit report, in draft form, was provided to MDAD, ASMO and AA on May 11, 2007. Responses were received from MDAD and ASMO, and they are attached to the final report as Appendix A and B. The OIG did not receive any comments from AA.

## *Executive Summary*

In general, ASMO has performed unsatisfactorily under its GASP and SSP agreements in terms of its gross revenues accounting, reporting and percentage fee remittances to MDAD. The OIG determined that, collectively, ASMO either did not report (until it was detected by the OIG auditors) or reported late (because of the OIG's detection) 13.90% of its total reportable gross revenues totaling \$6,202,146 and did not pay or paid late \$434,150 in percentage fees. ASMO has not paid or has paid late \$434,150 in percentage fees due to the County. (See Final Report Table 1 for a listing of these amounts and other cited amounts by category and the corresponding audit finding number.)

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**We are pleased to report that as a direct result of our audit, ASMO has already paid \$204,197 of percentage fees to MDAD** based on the late reporting of \$2,917,105 in gross revenues. The OIG also determined that **ASMO still owes MDAD \$75,769 in unpaid percentage fees, which corresponds to \$1,082,420 in revenues that remain unreported.** This is in addition to other late fees that ASMO owes to MDAD as further described throughout our report.

We describe in our report careless practices used by ASMO, as part of its routine gross revenues accounting activities, that we believe caused these conditions. We believe that such practices are the result of an inattentive management that does not take responsible steps to prevent, detect and correct accounting errors leading to revenue misstatements. ASMO could not document its key processes or identify any key controls related to its revenue accounting activities that would ensure that it completely, accurately and promptly accounts for and reports its gross revenues, in accordance with the agreed-upon terms and conditions.

We note there are ten (10) findings to our report but that our Draft Report, issued May 11, 2007, contained only two (2) overall recommendations. At the time, we deferred making more recommendations addressing the specific findings, pending our receipt of MDAD's and ASMO's responses. Our overall recommendations still are:

- Based upon our report findings, MDAD should consider ASMO's fitness to continue providing services at MIA.
- MDAD must examine its overall permittee oversight activities and take all reasonable steps to ensure that all permittees are complying with their respective agreements.

After reviewing ASMO and MDAD responses, we are supplementing our two overall findings with and additional eight (8) specific recommendations, which are found on pages 4 through 12 of the attached Final Report.

Our first five (5) findings deal with ASMO under-reporting various types of its monthly gross revenues, comprised of either ASMO's not reporting at all—or reporting late—its gross revenues, and not paying late charges on the under-reported amounts. ASMO, in its response, stated that it has changed its procedures and accounting software and this should preclude such under-reporting in the future. MDAD responded by stating that it has invoiced ASMO for all under-reported amounts and has assessed appropriate late charges. In addition, MDAD states that it now “[h]as an in-house audit group based in the Professional Compliance Division conducting compliance audits of permit holders to ensure accuracy of reported revenues.” The OIG is encouraged by both ASMO's and MDAD's responses but, nonetheless, the OIG recommends that MDAD's oversight be continuous and

unrelenting until ASMO's future performance demonstrates that its system's integrity justifies MDAD's trust.

One of the five findings referred to above, Finding No. 3, is a good example of ASMO's inattentive management. As many travelers know, there is a \$2 per bag surcharge when customers use the curbside baggage check-in services for American Airlines at MIA. This is a relatively recent development beginning in May 2006. Throughout most of 2006, ASMO did not report to MDAD the approximately \$789,000 in cash receipts resulting from this service, and, accordingly, did not pay the 7% fee, totaling over \$55,000. It was not until after OIG auditors began questioning ASMO about certain credit memos related to this service that ASMO claimed that it became aware of the fact that these revenues were not being reported. In fact, ASMO was accounting for these revenues in such a manner so that they would not be compiled and accumulated as MDAD-reportable revenues. We believe ASMO's explanations for this oversight, whether in response to our earlier queries, at the time of our fieldwork and later in its written response to our report are incomplete and the circumstances suspect.

In Finding No. 7, the OIG takes issue with ASMO not charging its customers Florida Sales Tax. ASMO responds that, except for AA, it has started charging its other customers Florida Sales Tax, unless they have provided it with a certificate of exemption. ASMO stated that it will continue to rely on AA's self-certification that AA can self-accrue and pay its Florida Sales Taxes. Nevertheless, the OIG recommends that MDAD require ASMO to provide it with all necessary certificates of exemption.

Finding No. 8 is a multi-part finding describing various lapses by MDAD in its oversight of routine contract issues. One such issue was that ASMO's letter of credit was under-funded by \$217,643. Another issue is that ASMO routinely submits its required annual audits late without fear that MDAD would even notice the late filings. Lastly, we pointed out that ASMO has been submitting its monthly report in the wrong format. Under the new agreement (effective November 1, 2006), ASMO was to submit a multi-page certified statement of monthly gross revenues and Local Developing Business Participation (LDB)—which it has not.

We describe in Finding No. 9 why we believe the required annual audits are ineffective, especially in light of the under-reported revenues detected by the OIG. ASMO responds by suggesting that the OIG should perform the annual audits. The OIG rejects ASMO's suggestion. MDAD, in its response, states that it "[i]s developing a series of Agreed-Upon Procedures to replace the current CPA Report format. The Department believes that the Agreed-Upon Procedures will provide much more useful information than the current format." The OIG encourages MDAD to continue with its efforts to implement a new annual audit requirement for its permittees. The OIG recommends that this new requirement be applied to all similar permit agreements.

Our sixth and tenth findings relate to the MDAD-approved *Monthly Report of Gross Revenues* and ASMO's certification that it is "true and correct." In both findings, ASMO does not directly address the stated conditions but it does respond that it would be willing to work with MDAD to design a new reporting format or revise the existing format to better represent the nature of its monthly gross revenues. Particularly related to these two findings is our distress over MDAD's lack of financial reporting oversight. While the detailed questioned amounts may not have been immediately evident to MDAD, general audit issues of under-reported income most definitely were. Some of our findings are repeat findings voiced by the County's Audit and Management Services Department two years earlier. Such issues included the non-reporting of equipment rental income, an under-funded letter of credit and the late submission of required annual audits.

Specifically, the OIG is distressed by MDAD's continued reliance on the MDAD-approved *Monthly Report of Gross Revenues* reporting format. Our report on page 38 provides an example of this one-page monthly report and illustrates how it fails to provide any information about a permittee's activities and the revenues generated therefrom. We believe ASMO's accounting practices left a lot to be desired and, most certainly, contributed to the under-reported revenues; however, we cannot understand how MDAD, throughout all these years, continued to accept and rely upon this useless report, especially when it had been put on notice that ASMO had under-reported its gross revenues in the past. We must emphasize that this is a MDAD-approved reporting format, and it can dictate to the permittees the manner in which it would like financial information reported. For example, as noted in our audit, ASMO's use of estimates are not disclosed. Additionally, adjusted amounts are not disclosed, late reported revenue amounts are not disclosed and late fees are neither disclosed nor paid. We are encouraged that MDAD has acknowledged the deficiencies in the current reporting format and is in the process of re-designing it. We are also encouraged that ASMO has shown that it wants to work together with MDAD on the revising the monthly report. The OIG recommends that once a new/revised format is established with input from the various permittees, that MDAD require all permittees to use the new/revised format.

Overall, the fact that MDAD employs similar practices in its administration of its other permits is, perhaps, the OIG's biggest concern. We are particularly concerned that other permittees are not being properly managed and that MDAD is likely losing significant revenues due to unreported and under-reported revenues. We believe that rectifying these types of deficiencies on all of its revenue generating agreements should be a top priority for MDAD.

The OIG requests that MDAD provide to the OIG a report in 90 days, on or before October 19, 2007, regarding the implementation status of all the recommendations, especially the new reporting format, and ASMO's payment status of all amounts identified in the audit and all associated late charges.

The OIG appreciates the cooperation and assistance afforded to us by MDAD staff and ASMO personnel.

cc: George Burgess, County Manager  
Jose Abreu, Director, Miami-Dade Aviation Department  
Anne S. Lee, Chief Financial Officer, Miami-Dade Aviation Department  
Cathy Jackson, Director, Audit and Management Services Department  
Charles Anderson, Commission Auditor  
Jose C. Lorenzo, President, ASMO (under separate cover)  
Rene Velazquez, Chief Financial Officer, ASMO (under separate cover)  
George Hazy, Vice President, Miami Hub, American Airlines (under separate cover)  
Florida Department of Revenue (under separate cover)

Clerk of the Board (copy filed)