



# 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: August 2, 2007

Subject: Executive Summary and Transmittal of the OIG's Final Audit Report on the  
*Agreement Between Miami-Dade Transit and the Miami-Dade Empowerment  
Trust to Jointly Develop the 7<sup>th</sup> Avenue Transit Village Project*, Ref. IG07-09

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## *Introduction*

Attached please find the Office of the Inspector General's (OIG) Final Audit Report on the above-captioned subject. The audit was conducted in response to a request by the former Miami-Dade Transit (Transit) Director, Roosevelt Bradley, for the OIG to review the Miami-Dade Empowerment Trust's (MDET) selection of Red Rock Global, LLC (RRG) as its development partner for the 7<sup>th</sup> Avenue Transit Village Project (Project), and to determine what, if any, Project-related deliverables RRG has produced. In addition, former Director Bradley, in a follow-up meeting with the OIG, expressed his concerns about MDET's first invoice to Transit, totaling \$136,515. The OIG recommended to Transit that it not pay MDET until the OIG completed an audit of the invoiced costs. Former Director Bradley agreed. Accordingly, the OIG included in this review an audit of the Project costs that MDET sought Transit to reimburse it for, and, thus, we reviewed RRG's reimbursement requests to MDET.

We concluded that MDET's selection of RRG did not conform to its own Trust Board's resolution that had authorized a process for selecting joint development partners on future projects, such as 7<sup>th</sup> Avenue Transit Village Project. In addition, the OIG determined that all \$351,906 paid by MDET to RRG, based on RRG's first three invoices, are questioned costs. Included therein is the \$136,515 invoice that MDET sought Transit to pay. Furthermore, while our review did show that RRG had produced some deliverables, we questioned when these deliverables were produced, what were their sources of authorization (e.g., a contract, *Letter of Agreement*, oral direction, etc.), who from MDET authorized their production and when was this authorization given. Additionally, we questioned how these deliverables related to the

charges that RRG billed MDET for in its first three invoices, and questioned whether these charges were Transit-related.

This audit report, in draft form, was provided to Transit, MDET and RRG on June 29, 2007. Responses were received from all three entities, and they are attached to the Final Report as Appendixes A, B and C.

### ***Background***

The subject Project is to build a "Passenger Activity Center" at the southeast corner of NW 7<sup>th</sup> Avenue and NW 62<sup>nd</sup> Street, and is otherwise known as the *7<sup>th</sup> Avenue Transit Village Project* or the *MLK Transit Village Project*. The Project is an \$86.5 million mixed-use development that will include:

- 37,200 sq. ft. of retail facilities (shops and restaurants),
- 24,000 sq. ft. of office space,
- 140 senior residential units and 125 market-rate residential units,
- a 646 space parking facility,
- a 4,500 sq. ft. Transit support facility (waiting room, driver lounge, ticket facility and restrooms),
- an 8-bay bus terminal, and
- a Transit plaza (bus shelters, outdoor seating and garden space).

On December 6, 2005, the Miami-Dade Board of County Commissioners (BCC) approved Resolution No. R-1339-05, that authorized a *Memorandum of Understanding* (MOU) between Transit and MDET. The MOU was a necessary predecessor to negotiations between the two entities to finalize a Project Joint Development Agreement (JDA).

Several months after the MOU was approved, on July 31, 2006, former Director Bradley executed a *Letter of Agreement*, dated June 1, 2006, with MDET. The *Letter of Agreement's* main purposes were to confirm Transit/MDET's mutual understanding of MDET's budgeted Project costs, totaling \$996,826, for "the initial phase of the Project through the completion of the schematic design and execution of an approved Joint Development Agreement (JDA)" and to formalize a cost-sharing allocation. In the agreement, MDET requested Transit's approval to commence the initial Project phase. With its *Letter of Agreement*, MDET included a letter proposal and budget from its development partner, Red Rock Global, LLC and letter proposals from RRG's primary consultants, Beauchamp Construction Company and Perez & Perez Architects Planners.

Our review of the various documents (agreements, proposals, budgets, etc.) and their stated scopes of work reveals that the terms pre-development, planning, initial phase and engagement services are used distinctly. However, in actuality, the terms refer to

the same work scopes and/or services to be provided prior to the execution of the JJDA. Moreover, there does not seem to be an actual Project starting point. While the Project schedule defines the Project's starting point as March 22, 2006, significant Project activities—that were compensated—began as early as June 2005 (one year before the date of the *Letter of Agreement* and some six months before the BCC approved the MOU between Transit and MDET).

MDET's first invoice to Transit, dated June 1, 2006 (the same date as the *Letter of Agreement*), totaling \$136,515, was one of the source documents that former Director Bradley presented to the OIG when he requested our audit assistance.

### Summary

The OIG determined that all \$351,906 paid by MDET based on RRG's first three invoices are questioned costs. Included therein is the \$136,515 invoice that MDET sought Transit to pay. OIG Audit Findings Nos. 2 - 4 describe the specific reasons supporting this determination. We note that these amounts, all of which pre-date the *Letter of Agreement*, correspond to approximately one-third of this Project's "initial" or "pre-development" phase—budgeted at almost \$1 million—of an overall total project budget estimated to be over \$80 million dollars. Further, we are confident that because irregularities were detected very early in the Project, they can be rectified and future deficiencies can be avoided.

**TABLE 1 Questioned Costs**

Description	RRG Invoice #1	RRG Invoice #2	RRG Invoice #3	Total RRG Invoice Amounts	MDET Invoice to Transit
Design Services - HOK	\$27,793	\$20,760	\$6,644	<b>\$55,197</b>	\$3,322
RRG Reimbursables	\$20,847	\$10,881	\$5,800	<b>\$37,528</b>	\$2,900
Architect Reimbursables			\$5,000	<b>\$5,000</b>	\$2,500
Contractor Reimbursables			\$2,500	<b>\$2,500</b>	\$1,250
RRG Fees			\$24,754	<b>\$24,754</b>	\$12,377
Architect Fees			\$59,250	<b>\$59,250</b>	\$29,625
Contractor Fees			\$15,000	<b>\$15,000</b>	\$7,500
Legal			\$12,500	<b>\$12,500</b>	\$6,250
Contingencies			\$58,279	<b>\$58,279</b>	\$29,140
Development Fee			\$13,002	<b>\$13,002</b>	\$6,501
Mobilization Fees			\$25,000	<b>\$25,000</b>	\$12,500
RRG Overhead Expenses			\$45,302	<b>\$45,302</b>	\$22,651
<b>Total Invoiced</b>	<b>\$48,640</b>	<b>\$31,641</b>	<b>\$273,031</b>	<b>\$353,311</b>	<b>\$136,516</b>
<b>TOTAL PAID</b>	<b>\$48,640</b>	<b>\$30,236</b>	<b>\$273,031</b>	<b>\$351,906</b>	<b>\$0</b>

NOTE: The \$1,405 difference between total RRG invoiced amounts and total MDET paid amounts is due to charges not paid by MDET invoiced under RRG Invoice #2.

RRG's Invoices #1, #2 and #3, as submitted to MDET, are questioned in their entirety because they lack adequate support justifying their payments. Similarly, MDET's invoice to Transit, which is nothing but a pro-rata pass-through of RRG's Invoice #3, is questioned, too. Without adequate supporting documentation or an "audit trail," OIG auditors could not validate that any of the charges shown on the invoices were allowable and consistent with the agreed-upon work scopes, schedules and other contract requirements. In addition, RRG's Invoice #1, dated November 1, 2005, totaling \$48,640, contains \$9,256 of duplicate expenses.

By adequate documentation, we mean valid, verifiable support of both the cost and date of services performed and the nature of the actual services performed. MDET paid RRG based upon an invoice of stated costs, expenses and fees, but the documentation accompanying the invoice lacked sufficient information to determine when these services were performed and pursuant to what agreement or authorization they were performed. Moreover, MDET did not require RRG to document its travel expenses by using a "travel expense report" of some form or another. Valid documentation, such as airline tickets, itinerary documentation and receipts for lodging, taxis or special transportation, communications, tolls and car rentals should support all expenses shown thereon. In other payment and/or reimbursement categories, MDET paid RRG without a shred of support that any cost was incurred.

In our Finding No. 4 we discuss what we believe are questionable budget line items that were invoiced and paid as lump-sum categories. In particular we question the "Contingencies" line item for \$233,116, which, we note, takes up over 23% of the total budget amount. First, we do not understand why a pre-development budget such as this would even have a contingency line item—there is no construction going on. Second, we believe that this item is unnecessary, given that the budget already includes \$53,200 (5.3% of the total budget) for developer, architect and contractor reimbursables. Lastly, we cannot comprehend how a contingency line item can be justifiably treated as a lump-sum amount to be invoiced and paid on a pro-rata basis, which, in this case, MDET apparently paid \$58,279 to RRG on this contingency item alone.

Other similar line items that were paid as lump-sum pro-rata items are Developer Overhead, Developer Reimbursables, Architect Fees, Architect Reimbursables, Contractor Reimbursables and Legal. These categories, including Contingencies, were presented for payment at the 25% pro-rata share against the budgeted line amount; and they were all paid in the absence of any supporting documentation that any charges for these categories were incurred.

Our understanding is that this Project is at a standstill while federal funding issues are resolved. During this time, MDET should require that RRG prepare satisfactorily documented pay requisition packages comprised of complete, verifiable support of all

RRG Project charges to date that would justify the corresponding MDET payments. Included therein should be a time-phased matching of services and deliverables to invoiced costs, all of which should match contract requirements. After MDET has reviewed and approved the resubmitted payment requisitions, it should forward to Transit only those costs appropriate to its cost allocation agreement.

One last finding relates to the selection of RRG as MDET's joint development partner. Pursuant to Empowerment Trust Board Resolution No. 05-07-2004, dated May 27, 2004, MDET staff was to issue a *Joint Development Proposal* (JDP) to members of a "joint developers pool" (Pool) and those proposals were to be evaluated by a selection committee based upon the proposal's quality and price. In the subject circumstances, MDET's President/CEO, in his recommendation memo to the MDET Board dated November 17, 2005, states that RRG was "chosen" to participate in the Project. We conclude that the selection of RRG did not conform to the Trust Board's resolution.

#### *Auditee Response—MDET*

MDET gives a brief Project history, including a description of RRG's solicitation and selection as the development partner. MDET acknowledges a "technical infraction" but adds that it would have reached the "same inevitable result" regardless of its OIG questioned actions. MDET adds, "We acknowledge a [sic] error and a failure of the process, but note emphatically that it was not an action born of bad intent."

According to MDET, RRG was "selected" because it was the only consultant left, out of the three prospective developers, that was qualified to participate with MDET. One developer, according to MDET, did not respond to the MDET President's attempts to contact it regarding this project, and the other member of the Pool was disqualified because MDET's then current president resigned from MDET to join the development company.

Regarding the invoice and payment issues, MDET states that Transit never asked it to provide back-up documentation for its invoiced costs. MDET talks about its agreement with RRG, the work scope, deliverables and compensation arrangements.

#### *OIG Rejoinder*

MDET's files do not contain any notations of attempting to contact one of the Pool members. The files also contain no notations documenting its reasons for unilaterally disqualifying the other Pool member. For that matter, MDET files do not contain any *Joint Development Proposal*—a requirement of the Trust Board approved solicitation process—that would have formed the basis of its solicitation for a development partner.

MDET's response does not address the OIG's major findings and recommendations concerning the almost complete lack of documentation supporting the costs reflected in RRG's invoices to MDET and, in turn, MDET's invoice to Transit. Its statement that Transit never asked for back-up documentation does not address the fact that the OIG asked MDET for this information. MDET states that it has requested from RRG certain documentation, such as cancelled checks, evidencing RRG's payment to third party vendors, i.e., design and architectural firms, but MDET also emphasizes that these were flat fees, as opposed to the other categories, such as reimbursables. Notwithstanding, MDET has already paid RRG without the aforementioned supporting documentation, and its response does not address its payment of the other lump-sum categories such as legal, reimbursables and contingencies that were invoiced and paid on a 25% pro-rata basis.

### ***Auditee Response—RRG***

RRG summarized its selection and participation in the Project. RRG explains its preparation of MDET's invoice to Transit and why it deferred invoicing its overhead and profit. RRG acknowledged the \$9,256 overbilling of duplicate expenses but stated that it had resubmitted a revised invoice. RRG takes issue with the OIG's presentation in the draft report of its other business with MDET consisting of an earlier housing development project in the South Dade/Homestead area and explains the basis for the \$300,000 loan that it received from MDET. RRG notes that it has since brought its loan payments current.

### ***OIG Rejoinder***

Similar to MDET's response, RRG's response does not address the OIG's major findings and recommendations concerning the almost complete lack of documentation supporting the costs reflected in RRG's invoices to MDET. We note that RRG does not volunteer to provide any of the documentation sought by the OIG as needed to justify payment thereof. The OIG acknowledges RRG's revised invoice but notes that RRG makes no mention whatsoever of the fact that it collected \$9,257 twice and no mention whatsoever of any intent to refund the money.

As it relates to the payment issues between MDET and RRG, the OIG recommends that MDET should not pay any future invoices until RRG provides complete, verifiable support of the charges shown on both current and past invoices.<sup>1</sup> In particular, the OIG recommends that MDET should closely review all RRG reimbursables to ensure their

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<sup>1</sup> Subsequent to our audit fieldwork, MDET has made four additional payments to RRG, totaling an additional \$148,093. All together, MDET has paid RRG \$500,000 for its participation in this Project. This amount is the maximum authorized expenditure amount, pursuant to Trust Board Resolution No. 05-04-2006, approved on May 25, 2006.

accurate accounting, allowability and reasonableness. The OIG's last recommendation regarding RRG/MDET's invoicing practices is that RRG and MDET should implement payment requisition documentation standards that would ensure that all invoiced costs are valid project costs supported by verifiable documentation.

*Auditee Response—Transit*

Transit shares all the concerns expressed by the OIG and concurs with all the recommendations that were notated in the (draft) report. Transit states that it will implement the OIG's recommendations as follows:

- Invoices dated prior to the execution of the Memorandum of Understanding (MOU) between MDT and MDET will not be paid
- Invoices for work performed prior to the date of the execution of the MOU will not be paid
- Invoices currently submitted without adequate support justification will not be paid until verifiable documentation is submitted in accordance with the MOU and as required by the Federal Transit Administration
- Expenses not clearly identified as transit-related expenses or shared joint development expenses will not be paid

The OIG requests that **both MDET and Transit each separately provide to the OIG a follow-up report in 90 days, on or before October 31, 2007**, regarding:

- Each agency's efforts to obtain the necessary support documentation to justify payments made, and if necessary—by MDET—to recoup monies paid that lack justification
- The status of the Project, including any modifications to the Project budget
- Any prospective agreements or mutual understandings regarding how payments/reimbursements will be authorized between the parties

**The OIG appreciates the cooperation and assistance afforded to us by  
Transit and MDET personnel involved in our review.**

cc: George Burgess, County Manager  
Ysela Llort, Assistant County Manager  
Cynthia Curry, Senior Advisor  
T. Willard Fair, Chair, Board of Directors, Miami-Dade Empowerment Trust  
Aundra Wallace, Executive Director, Miami-Dade Empowerment Trust  
Harpal Kapoor, Director, Miami-Dade Transit  
Cathy Jackson, Director, Audit and Management Services Department  
Charles Anderson, Commission Auditor  
Michael Tabb, Managing Principal, Red Rock Global, LLC (under separate cover)  
Clerk of the Board (copy filed)