

## COVER MEMORANDUM

To: Mr. George Burgess, County Manager

Received by \_\_\_\_\_

Date \_\_\_\_\_

From: Christopher Mazzella, Inspector General

Date: August 11, 2004

Re: OIG's Final Audit Report of the Cargo and Cruise Project of the Miami Seaport  
Redevelopment Program (MSRP) at the Miami-Dade County Seaport

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Attached please find the Office of the Inspector General's (OIG) final audit report regarding the above-captioned. Incorporated and fully appended to this report are the Seaport Department and P&O Ports Florida Inc.'s responses to the draft version of this report.<sup>1</sup>

The OIG audit focused on selected MSRP construction projects, from bid proposal to final completion. Overall, the OIG did not observe any significant deficiencies or unallowable costs within the scope of the program. Costs were documented and applicable to the contract, statutes, and regulations. Our audit findings, however, primarily focused on the cancellation of individual projects from the overall Cargo and Cruise Project (C&C Project). The second page of the audit provides a *Results Summary* section, which highlights the main findings of our review.

Additional issues have surfaced since the issuance of the draft report, and thus, the OIG requests that we are provided with a status report in 90 days (November 12, 2004). This report should include a follow-up to the original audit findings and recommendations.

As it relates to cancellation of projects, it is noted that Project 19 - *Relocating Rail Lines*, which was a "shadowed" project during the end phase of our audit fieldwork, has since been cancelled from the MSRP C&C Project. Project 19 had a signed GMP in December

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<sup>1</sup> Even though P&O Ports Florida Inc., the project developer was terminated on 4/01/04, as the project developer of the MSRP, the OIG provided it a copy of the draft audit for comment. A copy of the draft audit report was also sent to The Haskell Company (Haskell), the construction manager of the project. An independent response was not received from Haskell. Haskell stated that they participated in the Seaport's review and concurred with the Seaport's response. The OIG would have preferred an independent response from Haskell as it is the construction manager of the project. DMJM Harris, while participating in the program's decision making process, is the Seaport's Department's consultant and therefore was not directly provided a draft copy by the OIG.

2003 for \$629,165. Estimated construction cost as of the *June 2004 Monthly Report* budget forecast was approximately \$94,000. Therefore, there is approximately \$535,000 in savings by canceling this project. The OIG would like the Seaport Department to provide a response in the 90 days status report how this "cost saving" amount will be spent.

As it stands, the current scope of the C&C Project consists of a total of twenty-two (22) active and/or completed projects; its scope having been reduced by a total of eleven (11) projects and numerous sub-projects. These 22 remaining projects all have either signed GMPs or are in the pipeline of being signed and according to Seaport representatives, no projects are being "shadowed." The OIG would request that as part of the 90 day update, that the Department provide information on any additional projects and/or sub-projects that have been since cancelled and the re-programming of those budgeted costs.

Last, the OIG must emphasize that the \$2.4 million spent on cancelled projects, as identified in audit finding no. 3, does not represent the total dollar amount spent on cancelled sub-projects. As noted throughout the report itself, we focused on the cancellation of whole projects and not the various sub-components of an enumerated project. We found that the pay documentation did not always provide adequate documentation supporting cost breakdowns. In other instances, not necessarily involving outright cancellation of a project, significant costs were incurred for designs that were not utilized. Therefore, the true amount spent on cancelled projects, sub-projects, designs, and other soft costs is not known. The OIG requests that the Seaport include in the 90 day report a listing of cancelled sub-projects not captured in Table 4 of the OIG's report.

**The OIG appreciates and thanks the staffs of the Seaport Department, DMJM Harris, P&O Ports and The Haskell Company for their courteousness and cooperation extended to the OIG during the course of this audit.**

**It is respectfully requested that County management provide the OIG with this status report by November 12, 2004.**

cc: Honorable Chairperson Barbara Carey-Shuler, Ed.D, Board of County Commissioners  
Honorable Katy Sorenson, Vice Chairperson, Board of County Commissioners  
Honorable Dennis Moss, Chair, Transportation Committee  
Mr. Charles Anderson, Commission Auditor, Board of County Commissioners  
Mr. Bill Johnson, Assistant County Manager  
Mr. Charles A. Towsley, Director, Miami-Dade Seaport Department  
Mr. Roger Hernstadt, Director, Office of Capital Improvements Construction Coordination  
Ms. Cathy Jackson, Director, Audit and Management Services

Clerk of the Board (copy filed)

OFFICE OF THE INSPECTOR GENERAL  
FINAL AUDIT REPORT  
THE MIAMI SEAPORT REDEVELOPMENT PROGRAM - CARGO AND CRUISE PROJECT

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*A draft version of this report was issued on June 30, 2004. P&O and the Seaport Department provided their responses to the draft, which are attached in their entirety. A copy of this report was sent to The Haskell Company (Haskell), the construction manager of the project. An independent response was not received from Haskell. Haskell stated that they participated in the Seaport's review and concurred with the Seaport's response. The Seaport's specific responses to individual findings have been inserted into this document (indented). Portions of P&O's response have also been inserted into this document. OIG passages, including rejoinders, new to this final report are italicized.*

*As a follow-up on this audit and to monitor the implementation of the recommendations, the OIG requests that the Seaport Department provide a status report in 90 days. As highlighted in the cover memorandum accompanying this report, and as can be found throughout this report, the OIG respectfully requests updates on these specific issues.*

## SYNOPSIS

The Office of the Inspector General (OIG) conducted an audit of the Miami Seaport Redevelopment Program (MSRP), developed and administered by P&O Ports Florida, Inc., under the Master Development Agreement, dated September 13, 2001. The audit focused on selected construction projects, from bid proposal to final completion. The audit also includes a review of construction administration, budget, payment applications, as well as other documentation supporting payments made under the contract.

The parties to the Master Development Agreement (the Agreement) are Miami-Dade County, the Seaport Department, P&O Ports Florida, Inc., Carnival Cruise Lines, and the Port of Miami Terminal Operating Company (POMTOC). P&O Ports Florida (P&O), Carnival Cruise Lines and POMTOC are the Port's tenants. P&O is the service provider for container and general cargo operations, baggage handling and other terminal services. POMTOC is a stevedoring company and is the operator and manager of the Port of Miami's common carrier terminals. POMTOC is 50% owned by P&O.

The individual projects, which comprise the MSRP, are classed into two groups: the "Cargo and Cruise Project" and the "Cruise Terminal Project." P&O serves as the developer of the Cargo and Cruise Project. Miami-Dade County (the County) serves as the developer of the Cruise Terminal Project. On April 1, 2004, the County terminated

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P&O as the program developer and assumed developer responsibilities of the Cargo and Cruise Project. The OIG audit covers the Cargo and Cruise Project (C&C Project) only. The OIG did not audit or review any records or documentation for the Cruise Terminal Project, other than what is stated in the Agreement.

The C&C Project initially had a maximum project cost of \$111.23 million and consisted of thirty-three (33) projects. The Agreement was amended and the C&C Project's maximum project cost was increased to \$128.55 million and the number of projects reduced to twenty-seven (27). As of April 30, 2004, the budget remains at \$128.55 million (the amended amount); however, four (4) additional projects and several sub-projects have been cancelled. At present, the scope of the C&C Project consists of a total of twenty-three (23) active and/or completed projects. Each individual project has its own guaranteed maximum price (GMP).

**Summary Results**

During our review of the program, we noted the following:

1. Cancelled projects lacked sufficient documentation to support the procedures used for the cancellation process.
2. Use of the "shadowing"<sup>1</sup> principle was ineffective and did not serve its intended purpose of prioritizing projects.
3. Approximately \$2.4 million was spent on ten (10) projects cancelled from the C&C Project.
4. Several "approved" internal change orders were not properly approved or supported.

Overall, the OIG did not observe any significant deficiencies or unallowable costs within the scope of the program. Costs were documented and applicable to the contract, statutes, and regulations.

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<sup>1</sup> "Shadowed" projects were projects put on hold that were to be completed at a later date in the program without impacting the progress of other projects.

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*The Seaport Department, in its response, explicitly agreed with both recommendations. However, they did not state specifically how they would implement the recommended actions. P&O disagreed with certain statements made and issues raised by the OIG auditors. Overall, P&O neither agreed nor disagreed with the findings. P&O did not respond to the recommendations, either. The OIG did not include the majority of P&O's responses within our report since they no longer have the authority to implement any recommendations due to their termination. Please see P&O's response attached in the appendix.*

*In general, the OIG recommends that the Seaport Department maintain proper documentation on all aspects of the program. The Department should establish authoritative and written approval for the cancellation and reallocation of funds to other projects. Details on the implementation of these procedures should be provided in the requested 90 day status report.*

**ABBREVIATED TERMS USED IN THIS REPORT**

(A&E) Architect/Engineer  
(BCC) Miami-Dade Board of County Commissioners  
(C&C Project) The Cargo and Cruise Project  
(County) Miami-Dade County  
(CM) Construction Manager  
(GMP) Guarantee Maximum Price  
(Haskell) The Haskell Company  
(Agreement) Master Development Agreement  
(MSRP) Miami Seaport Redevelopment Program  
(OIG) Office of the Inspector General  
(P&O) P&O Ports Florida, Inc.  
(POMTOC) Port of Miami Terminal Operating Company  
(Port) The Dante B. Fascell Port of Miami-Dade

**GOVERNING AUTHORITY**

In accordance with Section 2-1076 of the Code of the Miami-Dade County, the OIG has the authority to review present, past and proposed County and Public Health Trust programs, accounts, records, contracts and transactions. This authority includes conducting contract audits regardless of whether the contract contains an OIG random audit fee.