



Memorandum



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To: The Honorable Daniella Levine Cava, Mayor, Miami-Dade
County The Honorable Jose “Pepe” Diaz, Chairman,
and Members, Board of County Commissioners, Miami-Dade County

From: Felix Jimenez, Inspector General 

Date: October 25, 2021

Subject: OIG Final Audit Report Re: *Follow-up Review of Miami-Dade Aviation Department’s Permit Application, Extension, and Renewal Processes*;
Ref. IG20-0003-A

Attached please find the above-captioned final report issued by the Office of the Inspector General (OIG). This report describes the OIG’s follow-up review to assess the current status of actions taken by the Miami-Dade Aviation Department (MDAD) regarding the implementation and effectiveness of prior OIG audit recommendations that were made in 2016 and 2017. The OIG’s original review began in 2015 pursuant to the Board of County Commissioner’s initiative to focus on revenue accountability at MDAD. Permits, a revenue generating activity for Miami-Dade County, are issued by MDAD (under authority of Administrative Order No. 8-5) to companies providing services to tenants on airport properties. Since 2015, annual revenues from permits, in the form of opportunity fees paid to MDAD, has averaged \$27 million through 2020.

This latest report contains two observations and two recommendations. MDAD notified the OIG that the content of the report needed no clarification, that they agreed with our recommendations, and that a formal response was therefore not necessary. The OIG requests that MDAD provide the OIG with a 90-day status report on or before January 24, 2022, regarding the implementation of the two new recommendations provided in this report.

The OIG would like to thank the MDAD staff for their cooperation and for the courtesies extended to the OIG throughout this review.

For your reading convenience, an Executive Summary follows.

Attachment

cc: Jimmy Morales, Chief Operations Officer, Miami-Dade County
Ralph Cutié, Director, Miami-Dade Aviation Department
Cathy Jackson, Director, Audit and Management Services Department
Yinka Majekodunmi, Commission Auditor, Office of the Commission Auditor

OIG EXECUTIVE SUMMARY
***Follow-up Review of Miami-Dade Aviation Department's
Permit Application, Extension, and Renewal Processes***

In December 2020, the Miami-Dade County Office of the Inspector General (OIG) began a follow-up review to an audit of MDAD's permitting process previously performed by the OIG. The original OIG audit commenced in 2015 in response to the Board of County Commissioners' directives aimed at increasing revenue accountability at the Miami-Dade Aviation Department (MDAD).

The objectives of our original audit were to evaluate the operation, internal controls, and revenue reporting of the permit process as a whole. (This approach was in contrast to audits and investigations conducted by the County's Audit and Management Services and the OIG that focused on individual permittees and the accuracy of their revenue reporting.) The objectives of this follow-up review were to determine if the fourteen OIG audit recommendations accepted by MDAD were fully implemented and whether they have been effective.

During this follow-up review, we noted key changes to MDAD's Permits Section that included a different office location; additional personnel; and key process transformations that corresponded with MDAD's implementation of the OIG's prior audit recommendations. Throughout our follow-up review, we noted the augmented use of technology, enhanced communication, and collaboration between MDAD divisions, and the establishment of procedures that has improved efficiency in the permit processing environment that is beneficial to both MDAD and the permittees.

Our review shows that MDAD has taken favorable actions to implement our previous audit recommendations. Most significantly is the resumption of issuing tenants and lessees an annual survey wherein they are required to identify their services providers/vendors. This survey, the *Tenant/Vendor Letter*, is a key control measure to account for the vendors/service providers doing business on airport property and to identify companies doing business without the required permits. MDAD resumed sending out the letter in 2016 after the OIG initiated the original audit and inquired about its issuance. Since then, and continuing through this review, the OIG has confirmed that it is being sent out annually. As discussed in this report, the OIG made other suggestions to improve the letter as a control measure and to enforce tenant compliance in responding to the survey.

Overall, we found that all our previous recommendations have been successfully adopted—with the exception of one recommendation that is no longer valid due to a court ruling; as such, this report contains no adverse findings. We do make two observations and proffer two new recommendations that we believe will benefit MDAD's permittee environment and, in particular, enhance revenue accountability.

Observation 1 addresses the fact that due to the COVID-19 pandemic, weekly meetings between MDAD Finance and Properties staff had been suspended and replaced with informal discussions on an as needed basis.

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The OIG recommends that MDAD Finance and Properties resume their regularly scheduled meetings, either virtually or in person (in compliance with the appropriate health/safety recommendations) to continue the enhanced communication and sharing of permittee customer and gross revenues information that had been established.

Observation 2 addresses how permittees reporting gross revenues greater than \$250,000 annually must have a certified audit performed by a CPA and submit the results to MDAD Finance, whereas permittees reporting gross revenues of less than \$250,000 annually can submit an attestation/certification by an officer or owner of the company that the gross revenues reported during the year are accurate. We note that the vast majority of permittees (71 percent) report annual gross revenues below the \$250,000 threshold and thus, are not required to submit CPA-certified audits. While these permittees must still submit an attestation/certification by an officer/owner of the company, from the examples that we have seen, these certifications are sometimes just a mere tally of the prior 12 months of the revenue reports. We are also aware that MDAD Finance reviews the *Monthly Report of Gross Revenues* reports submitted by the permittees to look for “trends” in the reporting of monthly gross revenues that appear to intentionally keep the total annual amount below the \$250,000 level.

OIG recommends that MDAD Finance continue to carry out reviews of permittees that are trending just below the \$250,000 threshold, but should also formalize this process so that “spot-inspections” or verifications of the gross revenues reported by these permittees are performed on a recurring basis. This should include a cross-check against the reported figures from the *Tenant/Vendor Letter*. We believe that a spot inspection of no less than 20% of those reporting annually via officer attestations is achievable.

The OIG requests that MDAD provide the OIG with a 90-day status report regarding the implementation of the two new accepted recommendation addressed in the report. We look forward to receiving this report on or before January 24, 2022.

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MIAMI-DADE COUNTY

OFFICE OF THE INSPECTOR GENERAL



FINAL AUDIT REPORT

IG20-0003-A

**Follow-up Review of Miami-Dade Aviation Department's
Permit Application, Extension and Renewal Processes**

October 25, 2021

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*Follow-up Review of Miami-Dade Aviation Department's
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I. INTRODUCTION & SYNOPSIS

In December 2020, the Miami-Dade County Office of the Inspector General (OIG) began a follow-up review to an audit of MDAD's permitting process previously performed by the OIG. The OIG's audit of the Miami-Dade Aviation Department's (MDAD) permit application, extension, and renewal processes was initiated in 2015 in response to the Board of County Commissioners' (BCC) directives aimed at increasing revenue accountability.

Permits, a revenue generating activity for the County, are issued by MDAD under authority of Miami-Dade County's Administrative Order No. 8-5, to companies providing services to tenants on airport properties. These companies—permit holders a.k.a. "permittees"—must satisfy certain requirements for the opportunity to do business at the airport. These requirements include submitting an application; paying an application fee and a security deposit; satisfying certain insurance requirements; and, most importantly, remitting to MDAD a percentage of the gross revenues that the company earned from its business dealings at the airport. This last requirement, called the "opportunity fee", varies depending on the type of services that the permittee provides, but is generally seven percent of the permittee's gross revenues.¹

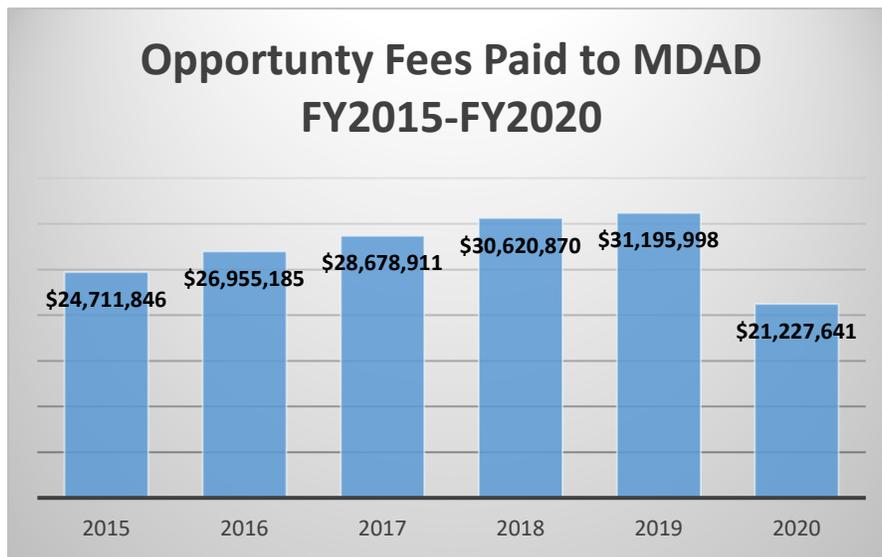
The OIG initiated the former audit in order to take a top-to-bottom look at how MDAD manages the entire permit process. This begins with the permit application process, moves through a Risk Management verification of insurance requirements, and results in the issuance of a permit, which thereafter may be extended and renewed. These processes primarily reside with MDAD's Real Estate Management & Development Division (aka and hereinafter referred to as "MDAD Properties"). The second half of the equation—the permittee actually conducting commercial activities at the airport and making money at it—is primarily overseen by the MDAD Finance Division. The OIG's former audit examined the permit process from both sides. It was conducted in phases and resulted in two final reports being issued, containing a total of fourteen recommendations, and a third phase that involved limited monitoring.

The objectives of our original audit were to evaluate the operation, internal controls, and revenue reporting of the permit process as a whole. The objectives of this follow-up review were to determine if the audit recommendations accepted by MDAD were fully implemented and whether they have been effective.

¹ The *MDAD Rates, Fees, and Charges Schedule (Fee Schedule)*, for fiscal year 2020 prescribes a 7% opportunity fee for third-party Vendors. This fee is 7% of gross revenues derived from services provided at the airport. Exceptions are noted for third-parties providing aircraft maintenance repair overhaul services (MRO), which remit 3%, and vending machine operators, which remit 30% of gross revenues. The *Fee Schedule* also states that the into-plane fueling fee for non-commercial aircraft fueling is \$0.08 cents per gallon.

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Since the initiation of our audit in January 2015, the number of airport permittees has grown from 143 to 288 in FY 2021. Accordingly, the total amount of opportunity fees paid to MDAD has also grown. As shown in Table 1, the amount of permittee opportunity fees paid to MDAD has increased from \$24,711,846 in FY 2015 to \$31,195,998 in FY 2019. The decline in the amount of opportunity fees paid in FY 2020 (\$21,227,641) is attributed to the reduction in permittees' gross revenues earned during the COVID-19 pandemic.



While conducting this follow-up review, we observed substantial improvements in the processes used by MDAD to manage its permittees. In contrast to when we conducted our initial assessment, which began in 2015, when one individual was processing all permittee applications and renewals, MDAD has hired additional staff who are well trained and operate efficiently to ensure all permittees are in compliance with County requirements. Additionally, the enhanced use of technology, improved communication between MDAD divisions, and the establishment of procedures are immense improvements when compared to our initial report observations. These changes have created a well-organized and efficient permit environment that is beneficial to both MDAD and the permittees.

Our review shows that MDAD has taken favorable actions to implement our previous report recommendations. As addressed in this report, all our previous recommendations have been successfully adopted with the exception of one recommendation that is no longer valid due to a court ruling; as such, this report contains no adverse findings. We do make two observations and two recommendations which we believe will benefit MDAD's permittee environment.

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II. BACKGROUND

In August 2014, a special item titled *Inquiry into the Problem with Revenue Accountability* was introduced to the BCC's Transportation and Aviation Committee (TAC). On September 2, 2014, representatives from the OIG, MDAD, Office of the Commission Auditor, and the Audit and Management Services Department spoke before the TAC on the subject of accountability and revenue collections with regards to permits and other revenue-generating contracts. While the bulk of that discussion involved holding individual permittees, concessionaires, and vendors responsible for under-reporting, the OIG recognized the need for an evaluation of the permit process itself that would focus on internal controls established by MDAD.

In January 2015, the OIG initiated an *Audit of Miami-Dade Aviation Department's Permit Application, Extension, and Renewal Processes* to take a broad look at how MDAD manages the entire permit process. This process originates with the permit application process, moves through a Risk Management verification of insurance requirements, and results in the issuance of a permit, which thereafter may be extended and renewed. These activities primarily reside with MDAD Properties. The second part of the process—the permittee actually conducting commercial activities at the airport and reporting its revenues from those activities—is primarily overseen by the MDAD Finance Division. The Revenue Section of the MDAD Finance Division is responsible for accepting and reviewing a permittee's *Monthly Report of Gross Revenues* form and processing the opportunity fees paid. The *Monthly Report of Gross Revenues* includes a list of customer names and the gross revenues derived from the services provided to a permittee's customer. It is the Revenue Section's job to ensure that permittees are paying opportunity fees based on the permit agreement's definition of Gross Revenues. The OIG's original audit, conducted in phases, examined the permit process from both the Properties (Phase 1) and Finance (Phase 2) sides of operation.

As noted throughout this report, our review of MDAD's actions to implement the below stated recommendations have been successful. All our recommendations have been adopted except for one that is no longer valid due to a court ruling. We note the total number of permittees has doubled since our initial audit which was started in 2015.

Our Phase 1 audit report, issued in September 2016, included a total of ten recommendations.² Four recommendations focused on managing the permit process, including ensuring that the *Tenant/Vendor Letter* is resumed and issued annually (to be discussed in further detail in this report); automating the permit application, extension and renewal processes; and, improving communication between the Permits Section, Finance, and other MDAD Divisions to help monitor vendor activities at the airport. Two

² For details of the Phase 1 Audit Report please see: [Ref. IG15-03, September 12, 2016](#)

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recommendations addressed enhancing and clarifying the terms and conditions of the permit agreements for fueling permittees, and three recommendations dealt with MDAD's Risk Management processes used for reviewing and tracking insurance requirements, certificates of insurance submitted by vendors, establishing authoritative procedures that allow for the waiver of certain insurance coverages under specified circumstances, and the use of "umbrella coverage" as an acceptable alternative. The audit report also included one recommendation regarding resolving issues related to the Living Wage Ordinance requirement in the permit agreements for three airline catering vendors who were not compliant. This recommendation was later invalidated by the Florida Third District Court of appeals holding that the County was prohibited from enforcing the Living Wage Ordinance on its airport permittees.³

The Phase 2 audit report, issued in October 2017, had four recommendations.⁴ One recommendation suggested modifying the *Tenant/Vendor Letter* to require airport tenants to include amounts paid to their providers for the most recent 12-month period. Another recommendation addressed policies and procedures to improve the sharing of information between the Permits Section and MDAD Finance. The third recommendation proposed that MDAD establish a formal protocol for handling permittees that misreport gross revenues, complete with a delegation of authority to specified individual(s) to approve a waiver of fees and penalties, as well as steps to follow once the misreporting has been identified. Lastly, the Phase 2 audit report recommended that MDAD should amend its permit agreement to include a monetary penalty for the failure by a permittee to fully disclose the identities of all of its clients.

Phase 3 of our audit focused on MDAD's on-going efforts to obtain compliance from its tenants regarding the aforementioned *Tenant/Vendor Letter*, and its progress in securing permits and collecting revenues from unpermitted vendors. Phase 3 was a direct result of prior work accomplished during Phases 1 and 2. At the OIG's request, MDAD provided progress reports in October 2018 and March 2019, however, no additional recommendations were made by the OIG during this monitoring phase.

III. AUDITEE'S RESPONSE

This report, as a draft, was provided to MDAD for its review and comment. MDAD notified the OIG that the audit report was very positive, "there were no written points that required clarification or rebuke", and therefore, they would not be issuing a response. In a separate correspondence, MDAD also noted that they concurred with the recommendations in the OIG's report.

³ *Ultra Aviation Services, Inc. v. Clemente*, 272 So. 3d 426 (Fla. Dist. Ct. App 2019)

⁴ For details of the Phase 2 Audit Report please see: [Ref. IG-15-03, October 10, 2017](#)

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IV. OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this follow-up review were to determine the current status of actions taken by the MDAD regarding the implementation of the recommendations that were made by the OIG in Phases 1 and 2 of the aforementioned former audit and to evaluate their effectiveness.

We began this review by conducting an entrance conference with the key representatives from MDAD's Properties, Finance, Professional Compliance and Risk Management Divisions to discuss our objectives, scope, and the approach to be taken for our follow-up review. To facilitate this review, we created a comprehensive schedule of our observations and recommendations made during each phase of the original audit. As part of this schedule, we also listed MDAD's responses, including its plans for the actions to be taken, for each of the fourteen recommendations that were made in the two audit reports. Our field work was comprised of meetings with staff from the appropriate MDAD Divisions, and testing of the documentation and information we requested to corroborate the status of the remedial actions taken.

The scope of our review included all of the MDAD divisions and work units that were audited previously. The time frame under review begins with the issuance of those recommendations through September 10, 2021, when the OIG conducted an exit interview with MDAD.

V. FOLLOW-UP REVIEW

Overall, during this follow-up review, we noted key changes to MDAD's Permits Section that included a different office location; additional personnel; and key process transformations that corresponded with MDAD's implementation of the OIG's prior audit recommendations. Throughout our follow-up review, we noted the augmented use of technology, enhanced communication, and collaboration between MDAD divisions, and the establishment of procedures that has created a well-organized and efficient permit environment that is beneficial to both MDAD and the permittees.

A. Follow-up on Phase 1 Recommendations

Subsequent to our Phase 1 audit report that was issued in September 2016, MDAD added four new staff, including a Section Chief, to the Permits Section in order to handle the workload and improve the efficiency and effectiveness of the section. Moreover, the Permits Section is now better organized as each staff member (a Permit Administrator) is assigned a portfolio of permittees. This enables each Permit Administrator to have "ownership" of their respective permittees' applications, processes and activities, such as extensions. This design of assigning an administrator creates an increase in communication between the MDAD staffer and the permittee. The new

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staffers are also more effectively using available technology to produce an improved work product for permittee record-keeping and tracking purposes.

While conducting this follow-up review, we met with the Division Director overseeing the Permits Section and the new Permits Section Chief to request select documentation relevant to the implementation of our recommendations. We confirmed that per our audit recommendation, MDAD has resumed issuing the *Tenant/Vendor Letter* to all airport tenants on an annual basis from 2016 through 2020. By requiring airport tenants to identify their vendors, the *Tenant/Vendor Letter* acts as an internal control tool that enables MDAD to identify entities operating on its premises. The *Tenant/Vendor Letter* assists to identify non-permitted businesses providing services to MDAD tenants and acts as a security control to assist in identifying who has rightful access to airport premises. Moreover, the *Tenant/Vendor Letter* identifies entities that should be paying MDAD an opportunity fee due to its conducting commercial activities at Miami International Airport. In fact, in a progress update issued to the OIG in March 2019, MDAD confirmed that by using the information contained in the responses to the *Tenant/Vendor Letters* issued, it was able to identify 117 unpermitted vendors operating on aviation property over the period of August 2017 through July 2018. MDAD subsequently took appropriate actions to ensure that those vendors whose services required a permit applied for a permit and became permitted. Finally, our review shows that penalties are assessed to tenants for non-compliance with the *Tenant/Vendor Letter* requirement.

Notably, since resuming the *Tenant/Vendor Letter* in 2016 after the OIG initiated this audit (it had not been issued since 2011), the number of airport permittees has increased from 143 in 2016, to 270 in 2020, and to 288 in August 2021.

Additionally, as we recommended in our Phase 1 report, MDAD Properties has collaborated with MDAD's IT Division to develop a web-based application automating the Permits Section's extensive, labor-intensive, business processes. In December 2020, during our entrance conference, MDAD advised us that it was about to implement a new on-line permit application process. The system prototype discussed included various capabilities that will play an essential role in supporting MDAD Properties. The new system was demonstrated to the OIG in January 2021. We requested and were granted read only access to the web-based application and our review shows it is comprehensive and provides permittees an efficient way to apply or renew their permits. Additionally, the web-based application is designed to make the permit application, extension, and renewal processes for Permits Section staff more efficient and significantly reduce the amount of manual labor previously required in the permitting processes. The system was successfully launched on June 7, 2021.

Our online review of the system indicated that, as intended, the system's primary focus is to automate the permit application extension and renewal processes. The

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system is capable of collecting and tracking the required documents and data that, in the past, were submitted by the applicants, completely in hardcopy form, to the MDAD Permits Section. All of this information is now entered into the system online and maintained in the system database. Once a permit agreement is created and approved, the information remains in the database so that it can be easily accessed and displayed when a permittee requests an extension or renewal of the permit. We also found that the system has the capability to generate email reminders about upcoming agreement and other document expirations to both permittees and staff. The platform has the ability to export its database information into spreadsheet format and can generate basic reports from that information.

Currently, MDAD Risk Management also has access to the system, as it approves and uploads the required permittee certificates of insurance. In April 2021, we met with the Chief of MDAD Risk Management who provided us with documentation that shows the use of a “tickler report” that tracks upcoming insurance expirations. This information is shared with the Permits Section so that minimum insurance coverages and insurance limits are in force throughout the duration of a permit. Moreover, based on our audit recommendations, MDAD Risk Management improved its internal controls by amending its processes to include periodic reviews of insurance requirements being input into the PROPworks® system by Risk Management administrators. Risk Management also implemented written notifications to applicable MDAD divisions notifying them of tenants or vendors that have insurance policies or certificates of insurance with upcoming expiration dates.

MDAD also concurred with our recommendation to amend its Fueling Services Permit Application/Agreement. During this review, the OIG reviewed copies of the revamped agreement, which addresses the different types of fueling services, respective required fees, insurance requirements, types of aircraft serviced, service locations, and includes a glossary of terms. The amended fuel services permit agreement helps determine and clarify the applicable fees and minimum insurance requirements for the various types of fueling services permittees.

B. Follow-up on Phase 2 Recommendations

In April 2021, we met with MDAD Finance to discuss steps taken to address monitoring and tracking permittee customers in conjunction with the Permits Section. The Permits Section created a *Permittee Data Log* that includes customers' names and contact information. The log is maintained in a computer shared drive folder that is used by both the Permits Section and the Finance Division, and is updated as changes occur. Significantly, the use of a network shared drive has strengthened inter-division communication, which was previously lacking.

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As mentioned earlier, MDAD agreed with our recommendation to reinstitute issuing the *Tenant/Vendor Letter* on an annual basis. In our Phase 2 recommendations, we suggested that MDAD modify the letter template to require enhanced reporting of information back to MDAD. The *Tenant/Vendor Letter* now not only requires that airport tenants provide a list of their customers and the specific services provided, but also includes a request for tenants to report the amounts paid to their providers in the most recent 12-month period. In our verification of these returned letters, we confirmed the additional reporting of this requested information.

The annual *Tenant/Vendor Letter* requiring tenants to list their service providers is an internal control implemented to curb unpermitted service providers on airport property. It is an important tool for MDAD Properties to verify, through third parties (tenants), the clients and customers of the permittees. Furthermore, the *Tenant/Vendor Letter* aids in identifying new business relationships between tenants and their vendors/permittees that may otherwise go unnoticed and result in a loss of revenue to MDAD. At our April 2021 meeting with the Finance Division, we were informed that Finance crosschecks the customers in the above-mentioned Permittee Data Log to verify permittees are reporting revenue earned from new customers. To motivate tenants to comply, MDAD instituted a mandatory response requirement with penalties for non-compliance. If the tenant does not respond within 30 days of receipt, a daily penalty fee of \$50 per day is assessed up to a maximum amount of \$750. The fee was approved by the BCC and was included in the FY 2019 Aviation Rates and Charges Schedule.⁵

Additionally, in response to our OIG audit recommendation, MDAD has implemented a protocol that establishes a formal process for handling misrepresentations of reported gross revenues and assists MDAD management in making informed decisions for each instance. As recommended by the OIG, the protocol requires detailed information regarding the incident, and provides a process to determine if penalties, fees or other sanctions should be assessed. It also sets forth an evaluative process to determine if the details of the incident should be referred to the Audit and Management Services Department or to the OIG for further examination. The process requires the decisions made to have a joint consensus from the heads of Finance, Real Estate and Professional Compliance Divisions with final approval from the MDAD Director or his designee. This policy was most recently utilized by MDAD to address two separate instances where MIA concessionaires were found to be underreporting gross revenues from their airport operations.

⁵ Our audit fieldwork showed that MDAD has implemented this penalty. MDAD provided 25 examples demonstrating that the penalty fee had been assessed to airport tenants for not complying with the response requirement. Additionally, documentation reviewed by OIG Auditors demonstrates that MDAD is pursuing the collection of this penalty.

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One of the instances, which was referred by MDAD to OIG Investigations, stemmed from a confidential complaint alleging the underpayment of opportunity fees owed to MDAD by Exactta LLC, an airport concessionaire. The OIG investigation disclosed that many of Exactta's transactions were recorded in the name of an unregistered entity – Tutto Communications. OIG analysis of the concessionaire's records, coupled with witness interviews, revealed that from January 2019 through April 2019, Exactta underreported \$275,418 in gross revenues. The OIG investigation ended in a settlement agreement between Exactta and the Miami-Dade State Attorney's Office for Exactta to pay \$41,738 to MDAD.

In the second instance, URW Airports, LLC (URW), an airport concessionaire management company, incorrectly excluded the Minimum Monthly Rent (MMR) from the calculation which determines the amount to be paid monthly to MDAD. URW came forward to advise the MDAD Finance of this error and agreed to pay amounts owed. Upon being informed by URW of the calculation error, Finance computed the fees due for the period of October 1, 2005 through September 30, 2020. Based on these calculations, URW owed \$1,475,661, which included \$746,377 in penalty charges for underpaying concession fees. In a memorandum containing the joint consensus of the Finance, Concessions, and Professional Compliance Divisions, it was recommended (to the MDAD Director) that "all penalties that can be legally collected within the Statute of Limitations be collected on all and any amounts owed. The Finance and Real Estate Division are working and meeting with URW to resolve this issue in the Department's best interests."

During our follow-up review, we learned from MDAD's Chief Financial Officer that MDAD had been in negotiations with URW and the Statute of Limitation and its impact on MDAD's ability to collect past-due opportunity fees was at issue. We were informed that to resolve the matter, URW would pay the opportunities fees on the underreported gross revenues and MDAD would forego assessing the penalty fees. This case was not referred to any external entities but was resolved internally.

While Exactta LLC and the URW are concessionaires, not permittees, both of these cases were administered using the recently enacted process for handling misrepresentations of reported gross revenues, which again, resulted from implementation of a prior OIG audit recommendation.

C. Follow-up on Phase 3 Monitoring

While conducting this follow-up review, we inquired about information provided to us during our previous monitoring of MDAD's handling of its permittees. This was part of our close out memo addressed to the Mayor and the BCC dated June 21, 2019. We were informed by MDAD Professional Compliance that, as of February 28, 2018, approximately \$500,000 in penalty fees had been assessed to tenants for not responding

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to the Letter. However, subsequent to our monitoring, MDAD discovered that the notification emails issued to airport tenants were flawed and were not being sent to the appropriate people or tenant addresses. Consequently, MDAD was not receiving responses from those tenants. As a result, MDAD reversed \$400,000 of the \$500,000 in fees that were assessed. According to MDAD, approximately \$75,000 of the remaining \$100,000 has been collected, and the Permits Section is working with MDAD Finance to collect the remaining fees. MDAD's records also indicated that some companies no longer provide services at the airport(s) and others have since closed their offices due to the COVID-19 pandemic.

As a result of previous difficulties communicating with permittees while relying on emails, MDAD informed us the procedure has been changed. MDAD now sends notices including the *Tenant/Vendor Letter* by both email and USPS certified mail. In addition, the BCC modified the maximum penalty cap to \$1,500 for not responding to the tenant/vendor letter. The penalty is \$100 per day for failure to respond up to the stated cap.

VI. OBSERVATIONS & RECOMMENDATIONS

Observation 1

In its efforts to improve communications between MDAD Properties and Finance, positive steps were taken to address monitoring and tracking permittee customers by creating the *Permittee Data Log* and utilizing a computer shared drive that, along with regularly scheduled meetings between the two areas, is used to stay updated as changes occur. The use of a network shared drive and the meetings has strengthened inter-division communication, which was previously lacking.

During our recent meetings and discussions with MDAD Finance staff, we were informed that due to the COVID-19 pandemic, weekly meetings between Finance and Properties staff had been suspended and replaced with informal discussions on an as needed basis.

Recommendation 1

MDAD Finance and Properties should resume their regularly scheduled meetings, either virtually or in person (in compliance with the appropriate health/safety recommendations) to continue the enhanced communication and sharing of permittee customer and gross revenues information that had been established.

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Observation 2

In our meetings with MDAD Finance staff, we discussed how permittees reporting gross revenues greater than \$250,000 annually must have a certified audit performed by a CPA and submit the results to MDAD Finance, whereas permittees reporting gross revenues of less than \$250,000 annually can submit an attestation/certification by an officer or owner of the company that the gross revenues reported during the year are accurate. We noted that gross revenues reported by the permittees for CPA-certified audits and attestations are reviewed by MDAD Finance to determine if the amounts match those reported on the permittees' *Monthly Report of Gross Revenues* forms submitted throughout the year. Additionally, for permittees that are just below the \$250,000 threshold, MDAD Finance reviews the *Monthly Report of Gross Revenues* submitted by the permittees to look for "trends" in the reporting of monthly gross revenues that appear to intentionally keep the total annual amount below the \$250,000 level. However, given that the majority of permittees (191 of 270 or 71% for FY 2020) report revenues of less than \$250,000 annually and provide the company officer certification in lieu of a CPA-certified audit, we believe enhanced verification is desirable.

Recommendation 2

MDAD Finance should continue to carry out reviews of permittees that are trending just below the \$250,000 threshold, but should also formalize this process so that "spot-inspections" or verifications of the gross revenues reported by these permittees are performed on a recurring basis. This should include a cross-check against the reported figures from the *Tenant/Vendor Letter*. We believe that a spot inspection of no less than 20% of those reporting annually via officer attestations is achievable.

VII. CONCLUSION

Overall, we are pleased with MDAD's implementation of our audit recommendations as well as its ongoing efforts in identifying and remediating unpermitted vendors, collecting outstanding fees, and implementing process improvements to better monitor vendor and tenant activities. The consistent issuing of the annual *Tenant/Vendor Letter*, and the development and implementation of an online, web-based, permit application extension and renewal system will significantly enhance MDAD Properties operational effectiveness.

The improved communication between MDAD Properties and MDAD Finance has been beneficial, however, the subject processes still have a significant, inherent control weakness attributable to permittees self-reporting their gross revenues. While self-reporting is not an uncommon practice at airports around the country, it does provide an opportunity for unscrupulous permittees to under-report their gross

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revenues, and thereby intentionally evade reporting the appropriate opportunity fees owed to MDAD. Since permittees use self-reported gross revenues as the basis for calculating permittee opportunity fees, steps to mitigate this risk are critical. Accordingly, the practice of allowing permittees to self-report their gross revenues should continue to be accompanied by resolute preventive and detective internal controls, along with robust enforcement measures.

We believe that the OIG audit recommendations MDAD has implemented strengthen its control environment and improve upon its ability to identify and track permittees and their airport customers, and detect a permittee's misreporting of its customer identities and associated gross revenues. Moreover, the consistent imposition of administratively-available remedies (e.g., penalties and interest) serves to deter unscrupulous permittees and hold even the honest, but negligent, permittees more accountable. The OIG will continue to provide independent oversight of MDAD vendor contracts and operations, including its revenue generating activities, and may deem it necessary to review such activities in the future.

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The OIG appreciates MDAD's concurrence with the report recommendations and their decision that a response to our report was not necessary. However, the OIG asks MDAD to report on the status of fully implementing the recommendations and to include with its response any new or amended policies and procedures, supporting the implementation. We kindly request that MDAD provide the OIG with this status report in 90 days, on or before January 24, 2022.

Last, we would like to thank the MDAD staff for their cooperation and the courtesies extended to us throughout this follow-up review.