MIAMI-DADE COUNTY

OFFICE OF THE INSPECTOR GENERAL

FINAL AUDIT REPORT

Miami-Dade Aviation Department's Agreements with American Sales and Management Organization Corporation for General Aeronautical Services Permits P-324 and P-3053 and Security Services Permits SP-2412 and SP-2924

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MIAMI-DADE OFFICE OF THE INSPECTOR GENERAL

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INTRODUCTION

The Office of the Inspector General (OIG) conducted an audit of the agreements between the Miami-Dade Aviation Department (MDAD) and American Sales & Management Organization Corporation (ASMO). These agreements authorize General Aeronautical Services Permits (GASP) P-324 and P-3053 and Security Services Permits (SSP) SP-2412 and SP-292, which allow ASMO to conduct business on/at MDAD properties, namely Miami International Airport (MIA).

The purpose of the OIG audit was to determine if ASMO accurately and timely reported its gross revenues from the services that it provided to its main customer, American Airlines (AA), for the period January 1, 2005 through December 31, 2006.[1] During that two-year period, ASMO reported GASP gross revenues from all customers totaling approximately $58.5 million and paid percentage fees totaling $4,093,239. Approximately $43.5 million of this amount (74%) related to services provided to AA, on which ASMO paid $3,048,323 in percentage fees.

In addition, ASMO services about 30 customers under its SSPs. ASMO reported $2,159,082 in SSP gross revenues from all customers during that period, on which it paid $151,135 in percentage fees. The OIG performed a limited review of ASMO's SSP gross revenues.

Lastly, the OIG assessed the effectiveness of MDAD's permit administration and accounting function.

TERMS USED IN THIS REPORT

AA	American Airlines
AMS	Audit & Management Services Department, Miami-Dade County
ASMO	American Sales and Organization Corp.
BCC	Board of County Commissioners, Miami-Dade County
CFO	Chief Financial Officer
CPA	Certified Public Accountant
FDOR	Florida Department of Revenue

[1] The OIG notes that while AA is ASMO's largest customer by a substantial amount, ASMO provides GASP services to thirteen other customers. The OIG did not audit any ASMO gross revenues from these customers. All figures and amounts described in the remainder of this report, unless qualified, pertain to AA.

GASP	General Aeronautical Services Permit
MAG	Minimum Annual Guarantee
MDAD	Miami-Dade Aviation Department
MIA	Miami International Airport
OIG	Office of the Inspector General, Miami-Dade County
SSP	Security Services Permit

RESULTS SUMMARY

Our audit focused on unreported or late reported gross revenues and resultant unpaid or late paid percentage fees. 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 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.

In general, ASMO has performed unsatisfactorily under its GASP and SSP agreements in terms of its gross revenues accounting and reporting, percentage fee payments and permit administration. The OIG determined that ASMO had $44,629,889 in total reportable gross revenues from AA during our two-year audit period although it only reported $43,547,469 of gross revenues to MDAD, leaving a total of $1,082,420 (about 2.4%) of unreported gross revenues. (See the following Table 1 for a listing of these and other amounts cited in this report.) The related 7% fees due on these amounts are $3,124,092 and $3,048,323, respectively, leaving an unpaid fee of $75,769. Collectively, ASMO either did not report (until it was detected by the OIG auditors) or reported late (because of the OIG's detection) 13.9% of its total reportable gross revenues totaling $6,202,146 and did not pay or paid late $434,150 in percentage fees.

As a direct result of our audit, ASMO has already paid $204,197 in percentage fees to MDAD based on the late reported $2,917,105 in gross revenues. In addition, **ASMO still must report the aforementioned $1,082,420 of gross revenues on which it owes MDAD $75,769 in unpaid percentage fees**.

The OIG did not attempt to calculate the precise amount of late charges (1½% monthly) due on ASMO's late paid percentage fees or those still due and accruing on ASMO's as of yet unreported gross revenues. However, we estimate that the amount exceeds $70,000 (reduced by ASMO's below noted payment in 2007). We note that ASMO has never self-assessed and paid late charges on those percentage fees that it knows were reported late. For example, in the case of March and September's 2005 monthly gross revenues, which the OIG detected were never reported, ASMO late reported these amounts in September 2006 and paid (in January 2007) the corresponding percentage fee of approximately $125,000, but even then it did not self-assess nor pay any late charges. Only after the OIG brought this to MDAD's attention and MDAD thereafter invoiced ASMO did ASMO finally pay $32,860 in late charges. This is the only known instance to the OIG of ASMO paying late charges. The amounts shown in Table 1 and throughout our report do not include late fees.

TABLE 1 ASMO Gross Revenues/Percent Fees and Audit Finding Amounts
For the Period January 1, 2005 through December 31, 2006

Description	Item Amounts	Total Amounts	Finding #1	Finding #2	Finding #3	Finding #4	Finding #5
Actual Reportable Revenues Total		**$44,600,422**					
Less Unreported Revenues:							
Net Unreported 2005 & 2006 Regular Revenues	$697,847			$697,847			
Unreported Baggage Check-in Revenues	$265,874				$265,874		
Unreported Equipment Rental Revenues	$118,699					$118,699	
Less: Subtotal Unreported Revenues		$1,082,420					
MDAD Revenues Reported Total		**$43,547,469**					
Less Late Reported Revenues:							
2005 Regular Revenues	$2,393,932		$2,393,932				
Baggage Check-in Revenues	$523,171				$523,171		
Other Net 2005 & 2006 Regular Revenues	$2,202,623						$2,202,623
Less: Subtotal Late Reported Revenues		$5,119,726					
Current Reported Revenues Total		**$38,427,743**					
	Audit Finding Totals		**$2,393,932**	**$697,847**	**$789,045**	**$118,699**	**$2,202,623**
	Percentage Fees @ 7%		**$167,575**	**$48,849**	**$55,233**	**$8,309**	**$154,184**
Total Unreported/Late Reported Revenues		**$6,202,146**	**13.90%**	**of Actual Reportable Revenues**			
Total Unpaid/Late Paid Percentage Fees		**$434,150**					
Outstanding Unreported Revenues		**$1,082,420**	**Outstanding Unpaid Fees**	**$75,769**			

SUMMARY OF FINDINGS, RESPONSES, REJOINDERS AND RECOMMENDATIONS

There are ten findings in this report, as summarized in the following paragraphs. After each finding summary, we have appended from MDAD's and ASMO's responses (which, in their entirety, are Attachment A and Attachment B, respectively, to this report) relevant excerpts and, when deemed necessary, OIG rejoinders.

The OIG did not make specific recommendations to any of the findings when it issued the draft report, although we did make two broadly stated overall recommendations in the Summary section at the end of the report.

- The first such recommendation is that, based upon our report findings, MDAD should consider ASMO's fitness to continue providing services at MIA. **[OIG Rec. #1]**
- The second overall recommendation is that MDAD must examine its permittee oversight activities and take all reasonable steps to ensure that all permittees are complying with their respective agreements. **[OIG Rec. #2]**

Previously, the OIG deferred making more recommendations, pending our review of ASMO's and MDAD's responses to the draft report. For this Final Report, the OIG is including recommendations that are shown in our rejoinders.

FINDING NO. 1 is that the OIG identified and informed ASMO of unreported 2005 "regular"[2] service gross revenues totaling almost $2.4 million, which ASMO then reported in late 2006 and paid approximately $167,600 in percentage fees. Simply stated, ASMO's monthly revenue accounting process failed to include approximately $2.4 million of revenue transactions from March, April, June and September 2005. ASMO's CFO offered various explanations for these errors, none of which were convincing. In early 2007, MDAD invoiced and ASMO paid $32,860 of late charges related to the March and September 2005 amounts. ASMO still owes late charges on the April and June 2005 revenue amounts.

ASMO Response

ASMO states that it has made changes to its internal accounting procedures and accounting software that should prevent future occurrences of inadvertent

[2] "Regular" revenues are those earned by ASMO under both its GASP and SSP, excluding curbside baggage check-in revenues and equipment rental revenues.

underreporting of revenues. In addition, ASMO states that once MDAD invoices it for late charges, ASMO will remit payment thereof.

MDAD Response

MDAD states that it has invoiced ASMO for underreported amounts and has assessed appropriate late charges. MDAD adds that is has an in-house audit group based in the Professional Compliance Division conducting compliance audits of permit holders to ensure accuracy of reported revenues.

OIG Rejoinder & Recommendations

The OIG is encouraged by ASMO's response 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. **[OIG Rec. #3]** In addition, the OIG believes that ASMO does not need a MDAD invoice in order to pay their late charges. ASMO is capable of calculating the past due amounts on its own and not to have done so by now is nothing but a delaying tactic. ASMO is blaming its inaction on MDAD's inaction, even when MDAD is not obligated to act. Notwithstanding, the OIG recommends that MDAD take action to collect the outstanding amounts. **[OIG Rec. #4]**

FINDING NO. 2 is that we identified additional unreported 2005/2006 regular service gross revenues totaling approximately $698,000 that ASMO has yet to report and pay the related percentage fees, totaling approximately $49,000. This amount includes revenues not accounted for as part of ASMO's typical month end process and are similar to those mentioned in Finding No. 1, except that we detected these unreported revenues later in our audit. This amount also includes the net effect of ASMO's use of estimates to report its monthly gross revenues and its failure to adjust these amounts in the following month to "actual" amounts. More importantly, ASMO did not disclose to MDAD that it uses estimates to calculate its fee payments. Due to limitations inherent in the MDAD approved *Monthly Report of Gross Revenues* used by ASMO, MDAD never knew about this practice (Finding No. 10). This would not be so serious if ASMO promptly and completely reconciled its estimated revenues the following month with actual revenue amounts, but ASMO rarely did so during our two-year audit period. More often than not, ASMO left substantial amounts unreported in the following months.

ASMO Response

ASMO explains its use of estimates and states that it has "taken all necessary corrective measures to insure that estimated gross revenues are identified on the gross revenue report" and that it has implemented procedures to insure "estimate-to-actual" reconciliations and reporting are accurate. ASMO, as above, also refers to procedural and software changes that will allow it to achieve its objectives.

MDAD Response

See MDAD Response to Finding No. 1. In addition, MDAD states that it has instructed ASMO "[t]o use only actual numbers in its reports."

OIG Rejoinder & Recommendation

We reiterate our recommendation found in OIG Rejoinder, Finding No. 1. However, ASMO's reporting of "actual" revenues may not be possible without it necessarily paying late fees every month. As we explain on page 27 of this report, operational constraints preclude ASMO from having complete data of its current month activity in time to prepare and submit its *Monthly Report of Gross Revenues* by the contractually stipulated date. If ASMO were to wait until it has complete data, it would have to pay late charges on all of its late paid fees. Whereas, if ASMO submitted an incomplete report, it would only be paying late charges on those late paid fees based on the late reported gross revenues. In either case, ASMO will be paying late fees every month because of circumstances beyond its control. Accordingly, we recommend that MDAD revisit this requirement and develop a solution where it will be possible for ASMO to timely report its "actual" numbers and, thus, can timely calculate and remit the correct percentage fees.
[OIG Rec. #5]

FINDING NO. 3 is that the OIG identified and informed ASMO of unreported baggage check-in gross revenues earned from May to December 2006, which we determined to be approximately $789,045. This amount represents 100% of ASMO's curbside baggage check-in gross revenues during our audit period. After OIG auditors raised the issue of this unreported revenue with ASMO's Chief Financial Officer (CFO), ASMO late reported over $523,000 of the revenues in December 2006 and paid $36,622 in percentage fees. ASMO still needs to report $265,874 of related gross revenues and pay $18,611 in percentage fees (plus late charges on both its earlier disclosed amount and this undisclosed amount).

ASMO Response

ASMO explains that it had already identified this revenue and acknowledges that "a few months did go by without these revenues making it to our [monthly MDAD] revenue report." ASMO states that it has since reported all past due amounts and paid fees thereon, and has been, on a current basis, completely reporting these revenues and paying fees to MDAD. In addition, similar to its response to our Finding No. 1, ASMO states that it is waiting for MDAD to invoice it for late charges.

See MDAD Response to Finding No. 1.
See OIG Rejoinder & Recommendations for Finding No. 1.

FINDING NO. 4 is that ASMO did not report approximately $119,000 of equipment rental gross revenues earned from January 2005 to December 2006 and that ASMO has yet to pay percentage fees totaling approximately $8,300 on these revenues. In April 2005, the County's Audit & Management Services Department issued a report citing ASMO for its failure to report $91,330 in equipment rental revenues and to pay $6,428 in associated percentage fees. While ASMO apparently agreed to the finding because it paid the outstanding percentage fees, it did nothing to change its accounting and reporting of these revenues over the next two years (the OIG audit period); resulting in an additional $119,000 in unreported revenues and $8,300 in unpaid percentage fees. The OIG notes that these revenues relate only to one ASMO client, AA, and that there may be equipment rental revenues from other customers that ASMO would be required to report and pay percentage fees.

ASMO Response

ASMO argues that the questioned income is not subject to the 7% fee because it is, in fact, an expense that AA reimburses ASMO for, on a dollar-for-dollar basis. This "income" results from ASMO's having purchased certain cabin cleaning equipment from AA, at the beginning of the contract between the two parties for such services. According to ASMO, during the contract period AA effectively buys back this equipment via the subject bi-monthly ASMO invoices for what ASMO states is its corresponding amortized equipment depreciation expense.

MDAD did not provide a comment to this finding.

OIG Rejoinder & Recommendation

As this is a repeat finding from a previous County audit, which ASMO apparently agreed with because it remitted the associated percentage fee, it is incumbent upon ASMO to convince MDAD that there has been a change in circumstance significant enough to warrant that this charge is not subject to the 7% fee. ASMO should submit its position, in writing and complete with supporting documentation (e.g., its contract with AA, etc.), and request that MDAD issue a written opinion clarifying the status of this income. The OIG recommends that MDAD, only upon ASMO's written request, evaluate the subject condition and, upon its determination, promptly issue a written opinion to ASMO with its finding. Should no request with all supporting documentation be forthcoming, MDAD should require ASMO to remit the corresponding percentage fee and associated late payments due on equipment rental gross revenues. **[OIG Rec. #6]**

In **FINDING NO. 5**, the OIG identified late reported 2005/2006 regular GASP gross revenues—generally 30 days late—totaling approximately $2.2 million, which ASMO did not self-assess and pay late charges on its late paid percentage fees. We also determined, during a limited review of ASMO's SSP revenues, that ASMO consistently reports approximately 87% of its SSP gross revenues at least one month late and also does not self-assess and pay late charges. We reiterate that ASMO never paid late charges during our 2-year audit period, except for the one instance involving OIG intervention, as discussed in Finding No. 1. The OIG acknowledges that the late charge amounts are typically *de minimis*. Nonetheless, we are reporting this condition because it is an example of how ASMO is not complying with its permit terms.

ASMO Response

ASMO states that it has changed its monthly reporting procedure to avoid late fees.

See MDAD's Response to Finding No. 1 and 2.
See OIG Rejoinders & Recommendations for Findings No. 1 and 2.

We explain in **FINDING NO. 6** why we believe that ASMO's certification that *Monthly Report of Gross Revenues* being "true and correct" is invalid because the monthly report amounts are not a true reflection of its current month's gross revenues. We believe it is MDAD's understanding that the amounts shown on ASMO's *Monthly*

Report of Gross Revenues are all current period actual revenues. This is not the case. ASMO uses unsupported estimates, which it often does not adjust to actual amounts in the following month. In addition, its current reported amounts contain prior-period amounts that were previously unreported. Fault for what we believe is unsatisfactory reporting is shared by both ASMO and MDAD. Although not specifically required to do so, ASMO could have taken the lead on this issue to disclose completely the composition and nature of its monthly gross revenues in its report. MDAD's requirement to use and rely upon the current format of the *Monthly Report of Gross Revenues* is misplaced (see Finding No. 10).

ASMO Response

ASMO states that it "would be privileged to work together with MDAD in order to design a new reporting format or modify its existing report in order to capture and identify items such as estimates, prior period adjustments, and other reconciling items."

MDAD's Response

MDAD "[i]s in the process of re-designing the monthly report of gross sales format to more accurately reflect reporting discrepancies."

OIG Rejoinder & Recommendation

The OIG recommends that MDAD begin as soon as possible to take ASMO up on its offer. In addition, the OIG recommends that once a new/revised format is established, that MDAD require other permittees to use the new/revised format. **[OIG Rec. #7]**

FINDING NO. 7 is that ASMO has not assessed, collected or paid Florida sales tax on security services provided under its GASPs and SSPs. OIG auditors questioned ASMO about our observation that ASMO was not assessing, and thus not collecting sales taxes on the taxable services that it provided AA. ASMO told the OIG that AA claimed that it was Florida Department of Revenue (FDOR) approved to self-accrue and direct pay its sales taxes. We note that Florida Statutes Chapter 212 allows qualifying entities the right to self-accrue and direct pay sales taxes. Prior to doing so, however, an entity must submit a written request that FDOR must approve. ASMO stated that it did not have any documentation on file from AA to support its exemption from taxes. ASMO also stated that it has not collected the sales tax from its other MIA customers because they, too, assured ASMO verbally that they were exempt from paying the sales tax on security services. Again, as with AA, ASMO does not have any supporting documentation that these other customers are FDOR-approved.

ASMO Response

ASMO states that, other than for AA, it will invoice all its other customers for Florida sales tax, unless they provide a certificate of exemption.
MDAD did not provide a comment to this finding.

OIG Rejoinder & Recommendation

The OIG recommends that MDAD obtain from ASMO a copy of AA's certifying statement and copies of all such certificates of exemption obtained by ASMO from its other customers. **[OIG Rec. #8]**

In **FINDING NO. 8**, we explain why we think that the MDAD Properties Division should be the lead unit charged with permit/permittee oversight, and that it needs to better coordinate and communicate with the MDAD Finance/Revenue Collection unit to provide more effective permit/permittee oversight. This recommendation is the result of a three-part finding wherein we discuss what collectively MDAD failed to do.

A. Monitor the status of ASMO's security deposit. As a result of our audit, MDAD determined that ASMO's current security deposit (letter of credit) was underfunded by approximately $217,000. This was also a 2005 AMS audit finding wherein AMS noted that ASMO's security deposit, at that time, was underfunded by almost $109,000.
B. Monitor ASMO's timely submittal of required certified special purpose audits by a MDAD-approved CPA. We determined that both GASP and SSP audits that were due for the years reviewed by the OIG were late. This deficiency was also a 2005 AMS audit finding.
C. Enforce the GASP P-3053 reporting requirement to submit a certified report showing both monthly gross revenues (prior requirement) and Local Developing Participation (new requirement).

No ASMO response required.
MDAD did not provide a comment to this finding.

OIG Rejoinder

Absent a response or comments from MDAD, the OIG reasserts that MDAD must do a better job at monitoring and enforcing these permit provisions. **[OIG Rec. #9]**

FINDING NO. 9 is that ASMO's audit report requirements are completely ineffective in determining permittee compliance with permit terms and conditions, including the complete, accurate and prompt reporting of permittee gross revenues. These audits are "certified special purpose" audits and are performed by "MDAD-approved" certified public accounting firms (CPAs). However, for both 2005 and 2006, ASMO's CPAs issued a series of reports and letters, wherein they stated that they found no "material" financial/accounting irregularities, non-compliances or control structure weaknesses. Notwithstanding, we found that ASMO did not report—what we believe to be—material amounts of gross revenues and, as a result, ASMO failed to pay substantial percentage fees that were due.

ASMO Response

ASMO suggests that the OIG perform the required annual audits and explains that the independent CPA-performed audits are not as in-depth, they use sampling methods, do not review every transaction and are limited by funding and time constraints.

MDAD Response

MDAD "is 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."

OIG Rejoinder

The OIG will not be performing annual permittee audits for MDAD. The OIG, however, does not disagree with ASMO's other statements. This is a MDAD issue. Accordingly, the OIG is encouraged that MDAD is developing Agreed Upon Procedures regarding its annual audit report requirements. Once established, it is recommended that these new requirements be added to all similar permit agreements.
[OIG Rec. 10]

FINDING NO. 10 shows that the MDAD-approved *Monthly Report of Gross Revenues* format is too simplistic to be a useful management tool to monitor permittee gross revenues. If MDAD required ASMO to provide more complete information about its adjustments and estimates, including greater detail on the composition and nature of its gross revenues, we believe that MDAD would be able to better review and understand ASMO's accounting for its total reported gross revenues and to ascertain the timeliness of the gross revenues reported.

See ASMO Response to Finding No. 6.
See MDAD Response to Finding No. 6.
See OIG Rejoinder & Recommendation for Finding No. 6.

OIG'S JURISDICTIONAL AUTHORITY

In accordance with Section 2-1076 of the Code of Miami-Dade County, the Inspector General has the authority to investigate county affairs and the power to review past, present and proposed County and Public Health Trust Programs, accounts, records, contracts and transactions. The Inspector General has the power to analyze the need for, and the reasonableness of, proposed change orders. The Inspector General is authorized to conduct any reviews, audits, inspections, investigations or analyses relating to departments, offices, boards, activities, programs and agencies of the County and the Public Health Trust.

The Inspector General may perform, on a random basis, audits, inspections and reviews of all County contracts. The Inspector General shall have the power to audit, investigate, monitor, oversee, inspect and review County operations, activities and performance and procurement processes including, but not limited to project design, establishment of bid specifications, bid submittals, activities of the contractor and its officers, agents and employees, lobbyists, and of County staff and elected officials, in order to ensure compliance with contract specifications and detect corruption and fraud.

The Inspector General shall have the power to review and investigate any citizen's complaints regarding County or Public Health Trust projects, programs, contracts or transactions. The Inspector General may exercise any of the powers contained in Section 2-1076, upon his or her own initiative.

The Inspector General shall have the power to require reports from the Mayor, County Commissioners, County Manager, County agencies and instrumentalities, County officers and employees and the Public Health Trust and its officers and employees regarding any matter within the jurisdiction of the Inspector General.

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of the OIG audit was to determine if ASMO has accurately and timely reported its gross revenues and promptly paid the resulting percentage fees 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. Although we directed our primary focus at auditing ASMO's GASP agreements, we also directed some attention to ASMO's SSP agreements. We evaluated ASMO-prepared documentation supporting the gross revenues amounts reported to MDAD for completeness, accuracy and reliability. In addition, we wanted to assess the effectiveness of MDAD's permit administration and accounting function.

Our original audit period was from January 1, 2005 through September 30, 2006. However, due to additional issues discovered during our review, we decided to extend the audit period to December 31, 2006, which includes the first two months of activity under P-3053. During that two-year period, ASMO reported to MDAD total GASP gross revenues from all of its customers of approximately $58.5 million, out of which approximately $43.5 million (74%) were for services provided to AA. ASMO paid $4,093,239 and $3,048,323, respectively, in percentage fees, on these gross revenues. ASMO reported $2,159,082 in security service gross revenues from all of its customers, during the same period, on which it paid $151,135 in percentage fees.[3]

We reviewed the original GASP (P-324), all seven (7) amendments and the current GASP (P-3053). Additionally, we reviewed ASMO's invoices, *Profit and Loss Statements*, *Invoice Registers*, the *MIA Monthly Gross Revenue Ground Report (Revenue Ground Report)* and the *Monthly Report of Gross Revenues* for the revised period under audit. In addition, we reviewed the SSPs (SP-2412 and SP-2924) and performed a limited analysis of ASMO gross revenues under these agreements.

Our scope included interviewing MDAD and ASMO personnel to gain an understanding of the activities and procedures related to management, monitoring and

[3] ASMO reports 100% of its AA gross revenues, including those earned for providing security services, under its GASP. ASMO pays a 7% fee on its gross revenues regardless of the permit type.

record keeping of permit activities. We also reviewed MDAD's files and the documentation related to its oversight of the permit agreements. We examined the documentation for both the GASP and SSP agreements. In addition, we reviewed 300 ASMO invoices, totaling $9,196,091, which the OIG had obtained from AA for ASMO security services provided to AA from January 2005 through April 2006. The OIG issued a subpoena to obtain these invoices, as part of a separate and independent (of this audit) review of MIA security services.

Lastly, we reviewed both the Miami-Dade Audit and Management Services Department's (AMS) audit report, issued April 20, 2005, on American Sales & Management Organization for the period November 1, 1999 through December 31, 2004, and the supporting audit work papers. We met with the AMS staff that conducted the audit to discuss their work, as far as it related to comparable OIG audit findings.

Throughout our audit, we met with ASMO's CFO and MDAD (both Properties and Finance units) personnel to discuss our audit issues and to obtain their feedback. We held separate exit conferences with both ASMO's CFO and MDAD's CFO to discuss our audit findings.

GASP P-324 AGREEMENT BACKGROUND

MDAD originally granted this general aeronautical service permit, effective as of June 16, 1992, to Ogden Ground Services, Inc. The permit had a five-year term commencing on November 1, 1992 and ending on October 31, 1997. It also provided for five one-year extensions, all of which MDAD exercised, and that effectively extended the permit term to October 31, 2002. Additional time extensions added 48 months to the permit term, which eventually ended on October 31, 2006. The GASP agreements require the Permittee to report to MDAD all the gross revenues from its GASP operations performed at MIA. The Permittee is obligated to pay a 7% fee on its monthly gross revenues.

During the permit's first year extension period, on February 13, 1998, MDAD assigned the permit to ASMO (BCC Resolution R-123-98). Besides this assignment, there have been seven (7) amendments to the permit:

- *Amendment 1*, dated September 14, 1995, modified some of the agreement language related to personnel and subcontracting.
- *Amendment 2*, dated December 2, 1997, eliminated the permittee's obligation to remit a *Minimum Annual Guarantee* (MAG)[4] and made the percentage fee payable on the full amount of gross revenues derived from services provided the prior month.[5]
- *Amendment 3*, dated October 8, 2002, extended the contract for a term of 12 months to October 31, 2003, and added the Living Wage Requirements, as per Section 2-8.9 of the Miami-Dade Code (County Ordinance No. 99-44 and Administrative Order No. 3-30) and amended the DBD participation goals.
- *Amendment 4*, passed and adopted by the BCC on November 4, 2003, extended the agreement for another 12 months to October 31, 2004.
- *Amendment 5*, dated October 28, 2004, extended the agreement to April 30, 2005 and updated the Living Wage Requirements and the DBD participation goals.
- *Amendment 6*, dated April 20, 2005, extended the agreement to October 31, 2005 and updated the DBD participation goals.
- *Amendment 7*, dated April 20, 2005, extended the agreement by 12 additional separate monthly terms to October 31, 2006 and updated the DBD participation goals.

This permit allows ASMO the right to provide and the obligation to offer the following general aeronautical services to MIA tenants:

A. Ramp service
B. Porter assistance services
C. Passenger services
D. Dispatching and communication services
E. Meteorological navigation services
F. Ticket counter and operations space services

[4] The MAG was part of the consideration for the agreement, which required the Permittee to pay the County a minimum annual guarantee amount for each applicable year of the term of the agreement, including extensions. This amount was prorated in twelve equal payments. The Second Amendment eliminated the MAG requirement for any agreement extensions.
[5] Before this amendment, the percentage fee was calculated as the amount by which 7% of the monthly gross revenues exceeded the MAG.

This permit also allows ASMO the right to provide and the option to offer the following support services to MIA tenants:

1. Cleaning services to those MIA tenants with whom it has contracted for GASP services.
2. Provide delayed baggage services to air carriers and aircraft operators.
3. Provide security services to include positive bag check (matching bags with passengers).

ASMO's CFO told the OIG that the GASP security services that it provides to AA are identical to the SSP security services that it provides to its other MIA customers. In addition, ASMO's SSP agreements contain similar reporting and percentage fee terms as those in its GASP agreements. We will discuss ASMO's SSPs later in this report.

On November 1, 2006, GASP P-3053 replaced the terminated P-324.[6] The services to be provided to MIA tenants and ASMO's obligations under the new permit remain basically the same. However, the new agreement's reporting date for gross revenues was changed to the 20th day of the month following the month when the gross revenues were earned (previously, the reporting date was the 10th day of the month). The fee payment date (20th day of the month) remains the same under the new permit. Permit P-3053 has an initial 5-year term plus, at the County's option, two separate 2-year extensions, but the total term shall not in any case exceed nine (9) years. If P-3053 was extended under both of the options, it would terminate on October 31, 2015.

Relevant P-324 Permit Terms and Conditions[7]

Article 3.02 Percentage Fees states:

> As consideration for the rights and privileges granted the Permittee herein, the Permittee shall pay the County monthly 7% of the monthly Gross Revenues, as defined in Article 3.06, derived from services provided during the prior month. The permittee shall pay such amount, plus any applicable State sales tax, as required by law, to the County by the twentieth day of the month following the month in which the Gross Revenues were received or accrued. For the purpose of Article 3.04 below, the percentage fee payable on any unreported Gross Revenues determined by the annual audit provided for in Article 3.11, are

[6] GASP P-324 and P-3053 hereinafter are collectively referred to as the "GASP agreements."
[7] P-3053 terms and conditions are substantially similar to those contained in P-324.

> considered due by the twentieth day of the month following the month during which such unreported Gross Revenues were received or accrued.

Article 3.04 <u>Late Payment Charge</u> states:

> In the event the Permittee fails to make any payments, as required to be paid under the provisions of this Permit, within ten calendar days of the due date, interest at the rate established from time to time by the Board of County Commissioners of Dade County, Florida (currently set at 1½% per month), shall accrue against all such delinquent payment(s) from the original date due until the Department actually receives payment. The right of the County to require payment of such interest and the obligation of the Permittee to pay same shall be in addition to and not to in lieu of County's rights to enforce other provisions herein, including termination of this Permit, or to purse other remedies provided by law.

Article 3.06 <u>Gross Revenues</u> states:

> The term "Gross Revenues," as used herein, means all moneys paid or payable to or consideration of determinable value received by the Permittee for sales made, transactions had or for services rendered in the operation of the Concession hereunder whether provided by the Permittee or by its approved subcontractor, regardless of when or where the order therefore is received, or the goods delivered, or services rendered, whether paid or unpaid, whether on a cash or credit basis or in consideration of any other thing of value … Gross revenues shall include the percentage fee payable to the County and under no circumstances will same be excluded from the Gross Revenues calculation.

OIG AUDIT FINDINGS

As previously discussed, ASMO provides general aeronautical services to numerous MIA tenants. The findings below emanate from our review of the documentation supporting GASP services provided to and gross revenues received from just one (1) ASMO customer—American Airlines (AA).

FINDING NO. 1 The OIG identified and informed ASMO of unreported 2005 regular service gross revenues totaling approximately $2.4 million, which ASMO then reported late in September 2006 and paid approximately $167,600 in percentage fees.

Our early analysis showed that in March 2005, ASMO did not report $1,074,159 of regular service gross revenues and in September 2005, another $713,047 of gross revenues (Table 2). We provided ASMO with this data and, in September 2006, ASMO included all but about $3,100 of these gross revenues in its MDAD revenue report for the month. However, it was not until January 2007 that ASMO paid the $125,063 of associated percentage fees due on these past-due amounts and paid $32,860 of the almost $35,000 due in related late charges.

Follow-up OIG analysis, also shared with ASMO, showed that it did not report to MDAD $524,683 of regular service gross revenues from June 2005. In response, ASMO, in its November 2006 monthly report to MDAD, reported $522,159 and later remitted the associated $36,728 in percentage fees. While reviewing its records related to these months for the OIG, ASMO identified $85,162 of unreported gross revenues from April 2005.[8] ASMO reported these revenues in November 2006 and has paid the approximately $6,000 of percentage fees that were due. ASMO has paid late charges on the March/September amounts, but has not yet paid the late charges on the April/June amounts.

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[8] The OIG also identified this unreported revenue, along with the almost $698,000 of additional unreported revenue that comprises our Finding No. 2. At the time, however, the OIG only challenged ASMO about the March, June and September 2005 amounts because of their significant dollar values.

TABLE 2 Unreported 2005 Regular Service Gross Revenues

Month Earned	Reportable Amount	Month Reported	Reported Amount	Difference
March 2005	$1,074,159	September 2006	$1,073,564	$595
April 2005	$85,162	November 2006	$85,162	$ - 0 -
June 2005	$524,683	November 2006	$522,159	$2,524
September 2005	$713,047	September 2006	$713,047	$ - 0 -
Total	**$2,397,051**		**$2,393,932**	**$3,119**
7% Fees	**$167,794**		**$167,575**	**$219**

ASMO's CFO offered various explanations to the OIG for these errors. We were told that "he had no idea what happened" or "the girls in accounting made a mistake" and "we recognize we made a mistake but will report the gross revenue and pay the percentage fees to MDAD." The OIG was not convinced that any of these were valid explanations why ASMO's accounting system, process, activities, etc., could not have prevented these large dollar-value errors from occurring in the first place, or detected and corrected them before they affected ASMO's monthly gross revenues reports.

The OIG notes that ASMO has never self-assessed and paid any late charges at any time on any unreported or late reported gross revenues during our 2-year audit period. The only late charges that ASMO has ever paid were paid only after MDAD invoiced ASMO for late charges due on a portion of the unreported 2005 gross revenues mentioned above. ASMO still owes approximately $33,000 in late charges assessable against the late percentage fee payments on the remaining 2005 gross revenues mentioned earlier.

OIG auditors determined these amounts by reconciling the gross revenues shown in ASMO's *Invoice Register* to those shown in its *MIA Monthly Gross Revenues Ground Report* and to those shown in its MDAD *Monthly Report of Gross Revenues* for the period under audit for GASP services provided solely to MIA AA.[9] ASMO's CFO explained that in order to prepare the contractually required *Monthly Report of Gross Revenues* that it submits to MDAD, it extracts from its monthly *Invoice Register* those transactions resulting from operations at other stations (airports) throughout the United States and from other MIA customers. In addition, it extracts the transactions related to the security services that it provides to other MIA tenants and at other airports. After

[9] The OIG auditors used this reconciliation process to identify and quantify the amounts shown in this Finding No.1, as well as those amounts shown in Finding Nos. 2 through 5. We will not restate our process in these later findings to describe how we determined the questioned amounts shown therein.

all the extractions are made, the remaining transactions comprise those listed in the *MIA Monthly Gross Revenue Ground Report* (*Ground Report*). According to ASMO's CFO, the transactions in this *Ground Report* constitute the support for the gross revenues reported and the corresponding percentage fee payments due to the County, as reported in its *Monthly Report of Gross Revenues* submitted to MDAD.

FINDING NO. 2 **The OIG identified additional unreported 2005/2006 regular service gross revenues totaling approximately \$698,000 that ASMO has yet to report and pay the related percentage fees totaling approximately \$49,000.**

Using the reconciling process described in Finding No. 1, the OIG determined that ASMO did not report approximately \$698,000 of regular service gross revenues comprised as follows:

March 2005	\$ 595				
May 2005	103,900				
June 2005	2,523				
August 2005	88,922				
February 2006	67,312				
June 2006	14,974				
July 2006	203,933				
August 2006	27,102				
September 2006	(199,233)				
October 2006	94,486				
December 2006	293,333				
Total	**\$ 697,847**	**x**	**7%**	**=**	**\$48,849**

Most of the unreported 2005 amounts resulted from ASMO missing a few invoices during its in-house reconciliation process. ASMO does not typically go back in the following month and review for late-posted invoices attributable to the preceding month that are reportable gross revenues, or during its post-extraction review does not notice that an invoice or two was improperly "extracted." Beginning in July 2006, however, ASMO, for unexplained reasons, began missing more than just a few invoices during its in-house reconciliation process. We believe that ASMO recognized that its monthly process was not picking up all invoices. To counter that impact, ASMO started adding estimated gross revenues to its report totals for reporting purposes instead of using just the amounts shown on the report.

ASMO's CFO offered no valid explanation as to why this change occurred and why ASMO could no longer completely account for all of its current period gross revenues. There is no documentation showing how ASMO determined its estimated gross revenues for these months. Moreover, the CFO could not provide an explanation as to why it suddenly stopped using actual amounts and began using estimates. Invariably, these estimates were smaller—often much smaller—than the actual amounts shown in later ASMO reports. The noted unreported amounts occur because ASMO does not always adjust these estimates, in a later month, to reflect actual monthly gross revenues.

OIG auditors questioned the lack of documentation deriving how these estimates were determined and who authorized their substitution for the actual monthly gross revenues shown in the invoice register. ASMO's CFO replied that new procedures were being prepared and implemented in response to the OIG's concerns. On December 12, 2006, the CFO e-mailed to the OIG a copy of ASMO's new *MDAD Monthly Port Fee Procedures*. However, this one-page procedure does not address the OIG's concerns about the documentation and approval of the estimated gross revenues reported to MDAD. The procedure only discusses the mechanics for the collection and reporting of the data.

Moreover, as we mentioned briefly in our FINDINGS SUMMARY and described in more detail elsewhere in this report, MDAD is totally unaware of ASMO's use of estimates to complete its monthly report. Thus, MDAD has no ability to monitor whether ASMO eventually reports its actual monthly gross revenues for those months when ASMO initially used estimates. Furthermore, since the GASP agreement does not address whether a permittee can use estimates to prepare its monthly report, the OIG will not rule on whether this is a compliant practice or not. The OIG's concern, which we believe should be MDAD's concern, is not ASMO's use of estimates but rather ASMO's complete, accurate and prompt reporting of 100% of its gross revenues. If ASMO uses estimates in one month and then adjusts the following month—and pays late fees, if necessary, on the difference—then there is no impact to MDAD. Only when ASMO does not completely, accurately and promptly complete that second step—the following month's adjustment, will there then be an adverse impact to MDAD. Too often, ASMO does not fully complete the second step.

FINDING NO. 3 **The OIG identified and informed ASMO of unreported May – December 2006 curbside baggage check-in gross revenues, which we determined to be approximately $789,000, of which ASMO only reported approximately $523,000 in December 2006 and paid $36,622 in percentage fees.**

ASMO did not account (until after the OIG pointed out this fact to ASMO's CFO) for any of its curbside baggage check-in gross revenues earned from May 1, 2006, when it first started charging for this service, through December 31, 2006. The total gross revenues for this service over the eight-month period amounted to $789,044 and the corresponding fee due to the County was $55,233. The curbside check-in revenues arise from an agreement with AA allowing ASMO to collect a $2 per bag fee for performing the services.[10]

During the reconciliation of ASMO's *Invoice Register* and the *Monthly Reports of Gross Revenues*, the OIG noticed that ASMO had issued certain credit memos to AA that were higher in dollar amount than previously reviewed credit memos. The OIG further inquired about the nature of these credit memos and requested their supporting documentation. The supporting documentation provided indicated that one credit memo issued to AA during May and another in June 2006 were related to baggage check-in services provided at MIA and were noted as "Sky Cap (Curbside Baggage)" and "Credit for Curbside Baggage Check-In (June 2006)" respectively.

Attached to the aforementioned credit memos were AA-prepared one-page *Monthly report for the Curbside Baggage Check-in* forms. This AA report shows a tally of the AA-generated number of bag tags issued curbside for the stated month; the total dollar revenue calculated at $2 per bag (tag); and the revenue allocation between AA and ASMO. We noted that ASMO's share was 78.55% of the total monthly gross revenues collected from the baggage check-in at MIA, while the remaining 21.45% was credited

[10] The OIG also learned that ASMO entered into an agreement with Business Representation International, Inc. (BRI), effective January 1, 2001, to provide it with manpower/staffing for its operations worldwide. Joseph Lorenzo, the son of Joe Lorenzo, ASMO's owner, privately owns BRI. The OIG auditors observed that BRI personnel at MIA actually performed the baggage check-in and collected the $2.00 per bag fee from AA customers. The OIG also observed BRI employees checking in bags for United Airlines traveling customers. However, ASMO has not provided details of this operation nor do we know whether ASMO reported its related gross revenues. A copy of the agreement between ASMO and BRI provided to the OIG did not discuss in detail the rates or amounts to be paid by ASMO to BRI for these services.

to AA. We later found that these percentages correspond to the agreed-upon revenue sharing allocation between ASMO and AA.

In May 2006, ASMO applied a credit amount against its MIA AA accounts receivable balance totaling $16,075, and in June 2006 ASMO applied a credit amount against its MIA AA June 2006 accounts receivable balance totaling $13,391. These credit amounts attracted our attention. We noted that ASMO later manually added back these credit memo amounts during its monthly revenue compilation and reporting process (described earlier in this report) thereby "zeroing out" the impact of the original credit memo amounts. These were the only two months when ASMO followed these steps.

We requested that ASMO provide us with all similar records. Eventually, ASMO provided us with copies of all of the *Monthly reports*, which allowed us to calculate more accurately all of ASMO's baggage check-in gross revenues. In total, ASMO collected over $789,000 in baggage check-in revenues from May through December 2006, worth $55,233 in percentage fees.

Even after we questioned ASMO about these revenues, it only reported $523,171 of the revenues and paid $36,622 in percentage fees. This amount corresponds to 100% of ASMO's 78.55% share of the subject revenues earned from May through November 2006. ASMO, as of December 31, 2006, had not reported $265,873 of these revenues comprising almost 100% of AA's share for the eight-month period plus ASMO's share for December 2006, upon which there are $18,620 of percentage fees payable.

TABLE 3 Baggage Check-in Revenues May – December 2006

Month	Gross Revenue	Gross Revenues Late Reported	Gross Revenue Unreported	Percentage Fee @ 7% of Original Gross Revenue	Percentage Fee Paid	Percentage Fee Unpaid
May 2006	$103,476	$81,280	$6,121	$7,243	$5,690	$1,553
Jun 2006	$86,200	$67,710	$5,099	$6,043	$4,740	$1,303
Jul 2006	$102,156	$80,227	$21,929	$7,151	$5,616	$1,535
Aug 2006	$93,438	$73,396	$20,042	$6,541	$5,138	$1,403
Sep 2006	$76,812	$60,336	$16,476	$5,377	$4,224	$1,153
Oct 2006	$90,794	$71,319	$19,475	$6,356	$6,223	$133
Nov 2006	$113,180	$88,903	$24,277	$7,923	$4,992	$2,931
Dec 2006	$122,988	$0.0	$122,988	$8,609	$ - 0 -	$8,609
Totals	**$789,044**	**$523,171**	**$265,873**	**$55,243**	**$36,623**	**$18,620**

While ASMO did report $523,171 in gross revenues and paid $36,622 after the OIG's audit intervention, it has not reported all such revenues and ASMO has not paid any of the late charges owed on these past due percentage fee payments. As described in Finding No. 10, ASMO's monthly revenues report submitted to MDAD does not itemize or otherwise notate what services ASMO was providing and what revenues were included in the monthly total gross revenues and when they were earned. Thus, MDAD did know about either the earlier non-inclusion or the late inclusion of these baggage check-in revenues and, consequently, would have been unaware of ASMO's belated reporting and failure to self-assess and pay late charges.

According to the CFO, he did not realize that these cash receipts were not being reported to MDAD until after the OIG questioned him and he researched this issue. In a follow-up response to the OIG, he explained that ASMO's financial accounting software did not capture these cash receipts as reportable revenues and ASMO's accounting/financial personnel did not notice this oversight. Notwithstanding the CFO's statement, because the reporting system only takes into account ASMO's monthly accounts receivables invoiced to AA, these cash receipts would never have been system-compiled during a routine monthly revenue reporting cycle.

In addition, the CFO stated that AA recommended accounting for its share of these revenues using credit memos. We have no independent confirmation of this statement but there is evidence supporting the likelihood that there was some agreement between AA and ASMO on how to handle these cash receipts. ASMO used an AA-prepared *Monthly Report for the Curbside Baggage Check-in* as support for its credit memos that is notated "AMR Confidential and Proprietary." In addition, one line description is "Revenue to AA ... (Credit via I-payables)." We observed that four (4) out eight (8) such reports were signed by both ASMO and AA representatives.

This AA/ASMO practice allowed ASMO to transfer AA's share of the cash receipts—less ASMO's percentage fee on ASMO's share of the cash receipts—as a deduction to AA's accounts receivables. We note that ASMO's transaction description of these credit memos was to show credits to AA for Sky Cap (curbside baggage) at MIA. It is clear that ASMO was not reporting these cash receipts/revenues in a manner consistent with its reporting of its accounts receivables/revenues. ASMO's CFO never did provide a valid explanation about its accounting for these baggage check-in cash receipts/revenues.

The OIG believes that the explanations are incomplete and the circumstances suspect. It would be reasonable to assume that an individual knowledgeable about his company's accounting software and its monthly process to compile reportable gross revenues, would have known that the end result would be as actually what had occurred—that is $789,044 of reportable gross revenues were not reported to MDAD.

Notwithstanding whatever its agreement with AA may be, the subject GASP agreements require that ASMO report to MDAD 100% of the total amount that it collects as gross revenues and calculate and pay its percentage fee based upon that amount. This requirement would include both ASMO's 78.55% share of the curbside baggage check-in revenues and AA's 21.45% share of the curbside baggage check-in revenues. ASMO has not complied with this requirement regarding its curbside baggage check-in service revenues. In addition, ASMO owes MDAD the applicable late charges on the late paid percentage fees and the still unpaid percentage fees.

FINDING NO. 4 ASMO did not report 2005/2006 equipment rental gross revenues totaling approximately $119,000 that would result in percentage fees totaling $8,309.

The County's Audit and Management Services (AMS) audited ASMO's gross revenues, for the period November 1, 1999 through December 31, 2004, and issued its final audit report on April 20, 2005. One AMS finding was that ASMO did not report its gross revenues from rentals of equipment to AA. The OIG agrees with AMS that this revenue is subject to the percentage fee.

Notwithstanding that ASMO apparently agreed with the AMS findings because it fully paid the amount assessed at the end of the AMS audit ($6,428 in unpaid fees on $91,330 of unreported gross revenues), ASMO has continued its practice of not reporting equipment rental revenues. ASMO's CFO told the OIG that MDAD had later agreed with him that these transactions should not be reported, however, he could not name the MDAD official nor could he provide any documentation from MDAD to support his statement. The MDAD officials that we interviewed denied that there was any such agreement and affirmed that this revenue was subject to the percentage fee.

In summary, for the period January 1, 2005 through December 31, 2006, ASMO did not report equipment rental gross revenues totaling $118,699 that would result in percentage fees totaling $8,309. Furthermore, the OIG estimates that there is approximately $1,700 in late charges applicable to the late paid percentage fees. Again, the OIG notes that these revenues relate only to one ASMO client, AA, and that there may be equipment rental revenues from other customers that ASMO would be required to report and pay percentage fees. Furthermore, while this may seem to be a small amount relative to the average monthly gross revenues, we cannot stress enough the egregiousness of this non-reporting, given AMS' previous finding on this same issue.

FINDING NO. 5 **ASMO did not self-assess and pay late charges on late reported 2005/2006 regular gross revenues totaling approximately $2,202,623; in addition, ASMO consistently reports approximately 87% of its SSP gross revenues one month late and does not self-assess and pay late charges on these amounts either.**

This finding is similar to Finding No. 2, except that these are initially unreported amounts that ASMO later reported, often in the following month, but then did not self-assess and pay late charges on the late-paid percentage fees (see aforementioned GASP agreement Article 3.04, *Late Reporting and Payment Charge*). Total late reported regular gross revenues for our 2-year audit period amounted to $2,202,623, on which ASMO late paid $154,184 in percentage fees. The corresponding late fees were not assessed nor paid.

In addition, for this finding, for the period under audit, ASMO provided security services to MIA tenants under security services permits SSP-2412 and SSP-2924. According to ASMO, the security services provided under these permits are no different from the security services provided under its GASP agreements. SSP-2412, which was a month-to-month permit, was effective on September 1, 2004 and expired on March 31, 2006. Permit P-2924 replaced SSP-2412 effective April 1, 2006. This current permit is also a month-to–month permit but with a term not to exceed one-year from its effective date, which ends on March 31, 2007. Revenues reported and fees paid from all ASMO SSP customers are shown in Table 4.

TABLE 4 Security Permits P-2412/P-2924 – Gross Revenues Reported And Percentage Fees Paid

Permit Number	Interim Periods	Gross Revenues Reported	Percentage Fee @ 7%
P-2412	Jan '05 – Mar '06	$1,455,964	$101,917
P-2924	Apr '06 – Dec '06	$703,118	$49,218
Totals for Audit Period		**$2,159,082**	**$151,135**

For this portion of our finding, the OIG reviewed all the invoices and other pertinent documentation for security services provided by ASMO to all its MIA customers, under its SSPs. Similar to its GASPs, ASMO's SSPs call for the reporting of gross revenues from the actual delivery of security services by ASMO to its MIA customers in the month that the revenues were earned. ASMO's SSPs also have comparable provisions that provide for late charges on late paid percentage fees.

We note that ASMO reports 100% of its security service revenues from AA under its GASP. AA is one of five ASMO customers known to the OIG that are both GASP and SSP customers, but the only customer wherein ASMO reports 100% of its revenues, regardless of whether they are GASP or SSP related, under its GASP.[11] The OIG believes that it would be advantageous for MDAD to require ASMO to segregate and report separately its GASP revenues from its SSP revenues from customers served under both a GASP and a SSP. We think that this would provide more informative data to MDAD for its use in monitoring ASMO gross revenues.

Notwithstanding our above-noted observation and recommendation, for the audited months, ASMO's reported monthly SSP gross revenues comprised 13% of its current month's gross revenues and 87% of the prior's gross revenues (see Table 5). Thus, every month ASMO should be paying a late charge on the late paid percentage fees due on the late reported revenues. We found no evidence that ASMO was not completely reporting such revenues and paying the appropriate percentage fees. Our finding, however, is that ASMO is not reporting such revenues and paying the fees on a timely basis according to the permit terms. In addition, we found no reason to believe that this condition during the audited 5-months was not typical of the other months that were not reviewed as part of our audit.

TABLE 5 Security Permits P-2412/P-2924 – Percentage of Invoices Reported Late

Period	Gross Revenues per Invoice Register	Previous Period Revenues	Percentage of Invoices from Previous Periods	Current Month Revenues	Percentage of Invoices from Jan '05
Jan '05	$127,748	$111,036	**87%**	$16,712	**13%**
Sep '05	$100,335	$83,583	**75%**	$16,752	**25%**
Mar '06	$76,894	$74,856	**80%**	$2,038	**20%**
Apr '06	$79,439	$68,474	**82%**	$10,965	**18%**
Jul '06	$87,749	$71,827	**77%**	$15,922	**23%**
Total	**$472,166**	**$409,776**	**87%**	**$62,389**	**13%**

[11] As of December 31, 2006, ASMO had 14 GASP customers and 31 SSP customers. ASMO serves five (5) customers—AA, Aeropostal, Avianca, Mexican Airlines and United Airlines—under both its GASP and its SSP.

According to ASMO's CFO, this condition occurs because it relies on MDAD to provide it with actual monthly passenger traffic, which forms the basis for ASMO's invoiced amounts, i.e., revenues. MDAD does not provide this information, according to ASMO's CFO, in time for it to prepare a complete report of its monthly gross revenues. Thus, ASMO is always reporting late most of these revenues. Another constraint mentioned by ASMO's CFO is that ASMO often needs to reconcile actual services provided against an agreed-upon budget that it has with its customers. This reconciliation often results in adjustments to the amounts ASMO can invoice its customers regardless of its actual costs. ASMO often cannot finish this process in time for it to submit complete and accurate gross revenues amounts.

These two constraints, however, do not preclude ASMO from taking reasonable, prudent steps to overcome these operational constraints and to mitigate its late gross revenues reporting and late percentage fee payments.
The OIG has pointed out in this and the previous four findings that ASMO has never self-assessed and paid late charges during our 2-year audit period. ASMO has only paid late charges on the one occasion when MDAD invoiced it for late charges due on a portion of the unreported 2005 gross revenues (Finding No. 1). The OIG acknowledges that the late charge amounts are typically *de minimis*. Nonetheless, we are reporting this condition because it is another example of how ASMO is not complying with its permit terms.

FINDING NO. 6 **ASMO's certification that its *Monthly Report of Gross Revenues* is "true and correct" is invalid. The monthly report amounts are not a true reflection of its current month's gross revenues. They contain unsupported estimates that are not later adjusted to actual amounts and are not then resubmitted in a revised report for the original month. "Current" amounts contain prior-period amounts that were previously unreported.**

Each month ASMO submits a *Monthly Report of Gross Revenues* to MDAD that it certifies is a "true and correct" statement of ASMO's monthly gross revenues and of percentage fees payable on the reported revenue amounts. The earlier referenced agreement Article 3.02, *Percentage Fees*, states in relevant part:

> As consideration for the rights and privileges granted the Permittee herein, the Permittee shall pay the County monthly 7% of the monthly Gross Revenues, as defined in Article 3.06, derived from services provided during the prior month.

Gross revenues are defined in Article 3.06, in relevant part, as:

> The term "Gross Revenues," as used herein, means all moneys paid or payable to or consideration of determinable value received by the Permittee for sales made, transactions had or for services rendered in the operation of the Concession hereunder whether provided by the Permittee or by its approved subcontractor, regardless of when or where the order therefor is received, or the goods delivered, or services rendered, whether paid or unpaid, whether on a cash or credit basis or in consideration of any other thing of value.

ASMO's *Monthly Report of Gross Revenues* contains estimated accounts receivable and prior-period accounts receivable, both of which are not contemplated additions to ASMO's otherwise reportable current period gross revenues. Perhaps what makes ASMO's practice more questionable is that ASMO does not disclose to MDAD when it uses estimated amounts or includes prior period amounts. However, had ASMO reported these amounts accurately, it would necessarily have to report that a certain percentage of its monthly gross revenues were being late reported and this would mean that ASMO should have self-assessed and paid the required late charges. As we have pointed out earlier, these amounts are *de minimis*, however, ASMO's performance indicates that it is not inclined to ever self-assess and pay late charges, notwithstanding the small dollar amounts involved.

ASMO may want to blame this reporting condition on the limitations imposed by the MDAD-approved report format. We agree that the report format is too simple to be used as a meaningful report (Finding No. 10). However, the OIG cannot believe that MDAD would object to ASMO's altering the report format, even if done unilaterally by ASMO, so that it better communicates the totality and composition of ASMO's reported gross revenues.

<u>FINDING NO. 7</u> ASMO has not assessed, collected or paid Florida sales tax on security services provided under its GASPs and SSPs.

Pursuant to Florida Statutes Chapter 212, protection services are subject to Florida's sales tax. Security and guard services fall under this category. ASMO provided these services to AA and to its SSP customers during the audit period, under its GASP and SSP agreements.

We observed that ASMO invoices to its various customers, including AA, for security services typically did not include the applicable 7% sales and use tax.[12] When questioned about this practice, ASMO's CFO replied that AA had assured them that they did not have to pay the sales tax to them because AA had authorization from the Florida Department of Revenue (FDOR) to self-accrue the sales tax and remit it directly to them.

We note that Florida Statutes Chapter 212 allows qualifying entities the right to self-accrue and direct pay sales taxes. Prior to doing so, however, an entity must submit a written request that FDOR must approve. We asked ASMO's CFO if ASMO had any documentation supporting AA's right to self-accrue and direct pay its sales taxes. ASMO stated that it did not have any documentation on file from AA. In addition, ASMO stated that it would not want to upset AA, its largest customer at MIA, by challenging AA's assertion that it was FDOR-approved to self-accrue and pay sales tax. Notwithstanding, ASMO eventually obtained an e-mail statement from an AA representative wherein this individual stated that AA self-assesses and direct pays its Florida sales taxes. ASMO also stated that it has not collected the sales tax from its other customers (MIA tenants) because all of them assured ASMO verbally that they, too, were FDOR-approved to self-accrue and direct pay their sales taxes on security services.

The OIG notes that the GASP agreement between ASMO and MDAD includes other service categories that, by their own title, may also be subject to the Florida Sales and Use Tax. However, at this point, the OIG will defer to the Florida Department of Revenue to determine whether, in fact, ASMO's customers are self-certified to assess and pay their respective sales taxes and, if not, what remedial action it will take against ASMO and its customers.

In December 2006, while audit fieldwork was still ongoing and after the OIG auditors questioned ASMO about its non-collection/payment of sales tax, ASMO included a $26,874 sales tax adjustment from the year 2005 when reporting its monthly gross revenues for December 2006. The nature of this adjustment has not been determined or the amount reviewed by the OIG.

The possible non-payment of sales taxes by ASMO's customers is important to the County, not just because it is a significant non-compliance with Florida Statutes, but

[12] Under its GASP, ASMO records show 16 items totaling $8,895.20 between January and October 2005 labeled as sales tax deduction. Under its SSP, for its more limited review, the OIG observed no comparable items over the same two-year period.

also because the County eventually receives a portion of these tax revenues. The County funds various programs with these monies, such as to finance its Homeless Trust Fund and the People's Transportation Plan.

FINDING NO. 8 MDAD Properties Division has not acted as the lead unit charged with permit/permittee oversight and has not coordinated or communicated well with MDAD's Finance/Revenue Collection unit.

This is a three-part finding wherein we discuss that collectively MDAD does not:

A. Monitor the status of ASMO's security deposit. As a result of our audit, MDAD determined that ASMO's current security deposit (letter of credit) was underfunded by approximately $217,000. This deficiency was also a 2005 AMS audit finding wherein AMS noted that ASMO's security deposit, at that time, was underfunded by almost $109,000.

B. Monitor ASMO's timely submittal of required certified special purpose audits by MDAD-approved CPAs. We determined that both GASP audits and both SSP audits due for the years covered by this OIG audit were late. This was also a 2005 AMS audit finding.

C. Enforce the GASP P-3053 reporting requirement to submit a certified report showing both monthly gross revenues (prior requirement) and Local Developing Participation (new requirement).

A) ASMO's letter of credit was underfunded by $217,643

ASMO's failure to accurately and timely report its gross revenues and pay the corresponding percentage fees to MDAD, discussed in Finding No. 1, directly impacted the amount of its security deposit. Such a deposit is important because it allows MDAD to unilaterally obtain replacement funds should ASMO fail to pay the required percentage fees. The GASP agreement requires ASMO to maintain such a deposit or letter of credit at an amount equal to 25% of the total percentage fee payments made in the previous year. The current security deposit amount, totaling $259,307, was underfunded by $217,643.

Article 3.08, Payments Security, of the GASP P-324 agreement states:

> The Permittee shall provide the County, and shall keep in full force and effect during the term of this Agreement, an irrevocable letter of credit or other form of security acceptable to the Department and so endorsed as to be readily negotiable by the County, for the payments required hereunder, in an amount equal to $60,000.00, adjusted annually to equal 25% of the total payments made in the previous year by the Permittee to the County. The Department may draw upon such payment security instrument, if the Permittee fails to pay the fees and charges required within the time limits specified herein. Such payment security instrument shall be in a form acceptable to the Department.

Article 3.08, Payment Security, of the GASP P-3053 agreement was changed and states:

> The Permittee shall provide the County, and shall keep in full force and effect during the term of this Agreement, an irrevocable letter of credit or other form of security acceptable to the Department and so endorsed as to be readily negotiable by the County, for the payments required hereunder, ***in an amount equal to a) $70,000.00, or b) if an Incumbent, defined as those Permittees who were performing GASP services at MIA on October 21, 2006, in an amount equal to what is filed with the Department as of October 31, 2006***. This Payment Security is adjustable annually to equal 25% of the total Payments made in the previous year by the Permittee to the County. (Emphasis added by the OIG.)

We looked at this issue as one indicator of how well MDAD was monitoring the GASP agreements and learned that MDAD had not been monitoring the adequacy of ASMO's letter of credit. Accordingly, on December 12, 2006, the OIG requested that the MDAD Finance Department re-calculate ASMO's letter of credit amount required by the agreement. MDAD's re-calculation resulted in a determination that ASMO's current letter of credit was underfunded by $217,643; it was $259,307 but it should have been $476,950.

The OIG auditors then asked when MDAD would notify ASMO of this shortcoming. The reply received was that it would not be fair to ASMO to now request a new letter of credit since the upcoming annual evaluation of the agreement was due in February 2007. At the insistence of the OIG auditor and after we mentioned that ASMO had not submitted an updated letter or credit, the MDAD Finance Department finally send a letter to ASMO later that same December 12th day. The OIG mentioned to MDAD personnel that ASMO had not submitted a revised letter of credit, as required by the agreement and calculated using the prior year's revenues (those earned between February 1, 2005 and January 31, 2006). Approximately two months later, ASMO's financial institution provided MDAD with a revised requested letter of credit, dated February 28, 2007, adding $217,643 to ASMO's required security deposit amount.

The GASP agreement puts the responsibility for maintaining the security deposit at the required amount squarely on ASMO. ASMO is required, under Article 3.08 of the GASP agreement, to annually adjust the amount based on prior year payments. ASMO should be compelled, even if belatedly, to comply with its GASP agreement. However, MDAD's reluctance to compel ASMO's compliance is a concern. But even before this juncture, the OIG would have expected that at the new permit's (P-3053) initiation there would have been some level of review by MDAD staff of the adequacy of ASMO's security deposit, especially since ASMO has been a long-term incumbent at MIA (since 1998) and because of the 2005 AMS report finding on this same issue.

ASMO's underfunded letter of credit is another finding from the aforementioned AMS report. In fact, the last time MDAD examined the adequacy of ASMO's letter of credit was because of the aforementioned AMS audit. AMS determined that ASMO's current letter of credit at the time was underfunded by $108,872. ASMO provided a revised letter of credit on July 15, 2005. During the intervening months until our audit, MDAD had not performed any monitoring of ASMO payments and the adequacy of its letter of credit. We note that AMS ended its finding by stating that "[N]either [MDAD] Properties nor [MDAD] Finance was aware of the violations, as the last review was performed in 2000."
Thus, the OIG finding corroborates AMS's earlier finding that ASMO has consistently failed to comply with the cited agreement provisions and that MDAD does not monitor adequately the amount of security deposits required by the agreement. The underfunded letter of credit is a shared failure by both ASMO and MDAD.

ASMO's noncompliance with essential permit requirements unnecessarily exposes the County to potential losses should ASMO fail to comply with the other key requirements, most notably the one to completely, accurately and promptly report its gross revenues and pay the applicable percentage fees. MDAD Properties Division is responsible for monitoring ASMO's compliance with each individual agreement. However, we noticed during our audit that this division is not involved in the gross revenues reporting and percentage fee payment review process, even though their personnel have been copied on documentation requests and e-mails with ASMO regarding some of our audit issues.

B) ASMO untimely submitted its required certified special purpose audits

ASMO has not submitted the contractually required annual audits on time. Article 3.11, Annual Audits, of the GASP P-324 agreement states, in relevant part:

> Within sixty days of each anniversary of the commencement date of this Permit and within sixty days following its termination, the Permittee shall provide to the Department on an annual (or portion thereof) basis, at its sole cost and expense, an audit report of monthly Gross Revenues, as defined under Article 3.06 of this Permit containing an unqualified opinion, prepared and attested to by an independent certified public accounting firm, licensed in the State of Florida … In addition, the audit shall also include comprehensive compliance procedures to determine whether the books of account, records and reports were kept in accordance with the terms of the Permit for the period of examination.[13]

The SSP agreements contain similar terms, except that the audit reports are due within 90 days. The OIG requested ASMO to provide us with copies of all audit reports for all permits for the period under audit. As of March 26, 2007, ASMO had provided the following (**Note, days late are as of April 17, 2007):**

Permit #	Permit Year End Permit Termination	Audit Report Due Date	Audit Report Actual Date	Days Late
P-324	January 31, 2006	March 31, 2006	May 23, 2006	53
P-324	October 31, 2006	December 31, 2006	Not Provided	102
SSP-2412	August 31, 2005	November 30, 2005	January 4, 2006	35
SSP-2412	August 31, 2006	November 30, 2006	Not Provided	138

The OIG notes that this failure to provide timely audit reports is another repeat audit finding from the aforementioned AMS audit report. AMS found that ASMO's required audit reports under its GASP agreement for the years ended January 31st in 2001, 2002, 2003 and 2004 were 240, 46, 80 and 20 days late, respectively. For its SSP and for the years ended October 31st in 2000, 2001 and 2002, AMS found that ASMO's reports were 95, 108 and 18 days late, respectively.

[13] Under GASP P-3053, a permittee's annual audit of gross revenues is now due within 90 calendar days after each anniversary of the permit's commencement date.

ASMO has not yet formally submitted the annual audit report due after P-324 was terminated, which was due within sixty-days (60) of the permit termination date or by December 31, 2006. In another example of the lack of compliance with the terms of the agreement by ASMO and indifference to its contractual obligations, ASMO's CFO states in an e-mail to the OIG, "It appears that nobody here at ASM[O] was aware of this requirement." This response was to an OIG request, on February 22, 2007, that ASMO provide a copy of the cited annual audit.

C) Non-compliant Monthly Reports of Gross Revenues Under P-3053

Agreement P-3053, effective November 1, 2006, requires ASMO to submit a multi-page certified statement of monthly gross revenues and Local Developing Business Participation (LDB). However, ASMO continued to provide the one-page report format that it used when reporting under the previous permit P-324, which only shows monthly gross revenues. The new 4-part reporting format requires a summary report showing monthly gross revenues, LDB subcontract amounts, LDB purchases, total LDB participation and percentage fee calculation (part 1); a listing of customers and gross revenues similar to that used under P-324 (part 2); a listing of LDB subcontract services by LDB contractor name, service type and revenues (part 3); and a listing of LDB purchases by LBD vendor name, purchase item(s) and costs (part 4). In addition, ASMO must attach to its monthly submission a *Local Developing Business (LDB) Monthly Utilization Report*.

Unfortunately, it is not surprising that both ASMO and MDAD did not follow the new required reporting format given the lack of attention both parties appear to be paying to GASP terms and conditions.

FINDING NO. 9 **GASP required certified special purpose audits by MDAD-approved CPAs are ineffective in determining permittee compliance with permit terms and conditions, including the complete, accurate and prompt reporting of permittee gross revenues.**

ASMO's reported 2005 and 2006 revenue amounts were audited, in accordance with GASP provisions, by MDAD-approved certified public accounting firms (CPAs), pursuant to GASP agreement Article 3.11 (previously cited in Finding No. 8B). These CPAs issued a series of reports and letters, for both 2005 and 2006 audits, wherein they stated that they found no "material" financial/accounting irregularities, non-compliances and control structure weaknesses. In light of our findings, their conclusions give rise to the OIG's concern about the efficacy of such audits.

As stated earlier in this report, the OIG, with minimal effort (See Finding No. 1 for a description of our primary audit procedure), discovered $2,393,932 in unreported AA gross revenues in the early stages of this audit. The OIG auditors promptly questioned ASMO on these amounts, to which ASMO's CFO did not have an answer. Shortly thereafter, ASMO included these amounts in its September 2006 and November 2006 *Monthly Report(s) of Gross Revenue* and included the corresponding $167,575 percentage fee in its payment to MDAD. Our $2.4 million of discovered unreported revenues amounts to almost 9.0 percent of the $27,254,246 in AA gross revenues reported for the permit year ending January 31, 2006.

ASMO's CPA[14] for the audit of the permit year ending January 31, 2006, made no mention of this missed revenue in its report/letters. Moreover, ASMO's 2006 CPA[15] made no mention of any of the $552,876 of unreported curbside baggage check-in revenues in its report/letters for its audit of the period ended October 31, 2006. The OIG is unsure what the CPAs consider "material" but it is clear to the OIG that had we not audited these amounts, at a minimum the cited $2.4 million of unreported 2005 gross revenues would have never been reported and MDAD would never have received any portion of the over $167,000 of unpaid fees that ASMO has now paid.
The same can be said about the almost $523,000 of unreported 2006 curbside baggage check-in revenues and the approximate $36,000 of related percentage fees. (The CPA's report audit date was as of October 31, 2006, thus over $236,000 of our reported $789,000 baggage check-in revenues would not have been covered by the CPA's audit.) Both CPAs also missed their audit period's respective portions of the $118,699 of equipment rental revenues and related $8,309 of percentage fees.

MDAD, absent audits by either AMS or the OIG, relies exclusively on these outside audits to provide it assurance that permittees are complying with permit terms and conditions. Unfortunately, it is our unavoidable conclusion, based upon our audit results, that MDAD cannot rely on these outside audits, as currently structured and performed, to provide it reasonable assurance that ASMO accurately, completely and promptly reports its gross revenue and pays its required percentage fees. An added OIG concern is that this same condition exists with other permittees and should also be a MDAD concern.

[14] ASMO's CPA for this audit was Michael Glinsky & Company, CPA, PA.
[15] ASMO's CPA for this audit was Rachlin Cohen & Holtz LLP.

FINDING NO. 10 **The MDAD-approved *Monthly Report of Gross Revenues* format is too simplistic to be a useful management tool to monitor permittee gross revenues.**

Article 3.10, *Monthly Statement Required* of the GASP P-324 agreement, states in relevant part:

> ….the Permittee shall furnish to the Department a statement of monthly Gross Revenues derived from operation of the Concession for the preceding calendar month and certify as to the accuracy of such statement, ***in such form as shall be prescribed by the Department from time to time. Such monthly report shall contain a breakdown of the gross revenues for subcontracted services, for each subcontractor, stated separately and included in the reported total.*** (Emphasis supplied by OIG.)

While the Permit terms only require summary information, at a minimum, it requires a breakdown of the revenues by service area. This makes sense as a GASP permit is for various general aeronautical services, such as ramp, porter assistance, ticketing, cleaning, security services, etc.

The current monthly submittal breaks down none of these services. Instead, ASMO has been submitting, and MDAD has been approving, a one-page statement listing all of its GASP clients, and showing a monthly lump-sum total of gross revenues for each client.

Monthly Report of Gross Revenues

MONTH OF SEP-2006

From: American Sales & Management
P O BOX 521305
Miami, FL 33152-1305

To: Miami-Dade County
Aviation
P.O. Box 592616
Miami, FL 33159
Att: Accounting Division

GASP P-324

LIST OF CUSTOMERS:	Amount:
AEROPOSTAL ALAS DE VENEZUELA	151,472.95
AMERICAN AIRLINES	2,787,875.05
AVIANCA AIRLINES	154,735.76
BAGS INCORPORATED	20,221.77
DELTA	98,230.94
DISTRIBUTIONS SOLUTIONS	24,636.00
LAN ARGENTINA	18,043.11
LANCHILE AIRLINES	80,078.17
LAN ECUADOR	39,090.51
LAN PERU	42,532.86
LANAIRPORT	17,754.06
MEXICANA AIRLINES	3,010.84
SKY KING INC	350.00
UNITED AIRLINES	40,373.28

Includes $1,073,564 of March 2005 gross revenues and $713,047 of September 2005 gross revenues.

Total Monthly Gross Revenues 3,478,405.30
Computation Of Percentage Fees Due:
7% Of Monthly Gross Revenues $243,488.37
Hereby Certify That The Above Statement Is True And Correct.

Rene Velazquez
CFO

Date: 10/10/2006

This one-page statement is wholly inadequate. Not only does it fail to report revenues by service type as required by the Permit, it also fails to provide any information about ASMO's total unadjusted gross revenues and any current period adjustments, such as credits issued by ASMO to its customers. Also missing is information about ASMO's current period estimates and later period adjustments to those estimates to reflect actual revenues for that earlier month. In the manner currently reported, MDAD personnel cannot do much more than merely add all the revenue figures together and verify the mathematical calculation of the 7% percentage fee against the sum.

We contend that MDAD could take more care to notice the sometimes great variances in reported monthly amounts, and should the need require, inquire further. Table 6 depicts ASMO's monthly reported gross revenues from AA, and highlights the variances when compared to the average monthly gross revenues amount over the 24-month audit period.

Table 6 ASMO's Reported Gross Revenues for 24 Months and Comparison to Average Monthly Gross Revenues for the Same Period

Month/Year	Total Reported Gross Revenues	Average Monthly Gross Revenues	Monthly Variance	
January 2005	$1,911,467	$1,814,478	$96,989	
February 2005	$1,736,092	$1,814,478	($78,386)	
March 2005	**$815,503**	**$1,814,478**	**($998,975)**	**Does not include $1,074,159 of revenues (see September 2006)**
April 2005	$1,770,585	$1,814,478	($43,893)	
May 2005	$1,904,938	$1,814,478	$90,460	
June 2005	$1,650,000	$1,814,478	($164,478)	
July 2005	$2,202,616	$1,814,478	$388,138	
August 2005	$2,192,545	$1,814,478	$378,067	
September 2005	**$1,095,652**	**$1,814,478**	**($718,826)**	**Does not include $713,047 of revenues (see September 2006)**
October 2005	$1,615,621	$1,814,478	($198,857)	
November 2005	$1,620,312	$1,814,478	($194,166)	
December 2005	$1,757,104	$1,814,478	($57,374)	
January 2006	$1,768,996	$1,814,478	($45,482)	
February 2006	$1,447,236	$1,814,478	($367,242)	
March 2006	$1,753,376	$1,814,478	($61,102)	
April 2006	$1,656,275	$1,814,478	($158,203)	
May 2006	$1,520,163	$1,814,478	($294,315)	
June 2006	$1,714,415	$1,814,478	($100,063)	
July 2006	$1,763,170	$1,814,478	($51,308)	
August 2006	$1,964,013	$1,814,478	$149,535	
September 2006	**$2,787,875**	**$1,814,478**	**$973,397**	**Includes $1,787,206 of March & September 2005 previously unreported revenues**
October 2006	**$2,387,295**	**$1,814,478**	**$572,817**	**Includes $685,631 of September 2006 revenues**
November 2006	**$2,117,889**	**$1,814,478**	**$303,411**	**Includes $609,845 of April & June 2005 previously unreported revenues**
December 2006	**$2,394,331**	**$1,814,478**	**$579,853**	**Includes $523,171 previously unreported curbside baggage check-in fees**
Total Gross Revenues	**$43,547,469**			

An observant reviewer may have noticed the large monthly variances in some of the gross revenue amounts reported. But even after the OIG informed MDAD of the almost $1.8 million of previously unreported income, which was included in the September 2006 monthly report (OIG Email to MDAD, dated December 12, 2006), MDAD's reaction was to merely review ASMO's most recent audit report and the September 2006 monthly revenues report (MDAD Email to OIG, dated January 10, 2007. Not surprisingly, MDAD could not find the discrepancy. Moreover, MDAD personnel did not contact ASMO directly to discuss this mistake, to inquire as to how it happened and/or what ASMO was doing to prevent future recurrences.

Instead of acting on the information that we were providing mid-audit, MDAD recommended to the OIG that it advise ASMO to resubmit its monthly reports reflecting the corrected amounts, an action that would be clearly a managerial function, not an OIG function.

OIG Email to MDAD: Dec. 12, 2006

As you are aware, our office is conducting an audit … we noted that ASMO had under-reported its gross revenues under this permit to MDAD for the Months of March and September 2005 in the aggregate amount of $1,786,612. We brought this finding to ASMO's attention seeking an explanation of the matter. Unable to provide an explanation, ASMO has since included these under-reported amounts in its September 2006 Monthly Report of Gross Revenues and paid the corresponding percentage fee in the amount of $125,063. However, this payment does not include the late payments charge required by Article 3.04 of the Permit agreement, which we believe is owed to MDAD, but for the time being we will defer to you for collection.

We are continuing our audit and will provide you with additional information as we near the conclusion of our review.

MDAD Email to OIG: Jan. 10, 2007

The late charges have not been done. However, we conducted a review of ASMO's reports and their external auditor's reports and found that no under-reporting was noted on the schedule of gross revenues submitted by ASMO's external auditor for the months of March and September 2005.

September 2006 monthly report of gross revenues does not distinguish the under-reported portion from 2005 gross revenues of $1,786,612 as a result we do not know what is within their September 2006 gross revenues. Additionally, 7% on the under-reported 2005 amount could not be identified in the amount of $125,063 resulting from your finding. I believe that when such findings are reported they should be reported separately for clarity and purpose. I recommend that you advise ASMO to resubmit reports for March and September 2006 and September 2006 to reflect the actual numbers for those months.

On the interest charges according to article 3.04, we are preparing it today retroactive to March 2005. As soon as it is done today, I will email it to you.

Notwithstanding MDAD's lack of action, it is the report's format with its lack of any detail, which is the basis of OIG Finding No. 10.

Moreover, had it not been for the OIG's notification to MDAD that previously unreported amounts were now being reported one year later, MDAD would not have known to assess and invoice for late charges. As mentioned earlier, this was the sole occasion where ASMO has paid a late charge, and it was only due to the OIG's audit intervention.

In conclusion, the OIG believes that the MDAD-approved *Monthly Report of Gross Revenues* format is a useless management tool to account for ASMO's monthly gross revenues. By continuing to accept this reporting format, MDAD should resign itself to the reality that it will have no reasonable assurance that it is receiving the correct amount of percentage fee due to the County.

Should MDAD desire heightened assurances that ASMO is completely reporting its gross revenues, it must require, at a minimum, greater detail on the composition of ASMO's gross revenue stream comprising <u>both</u> its cash receipts and its invoiced accounts receivables, including:

- the names of all customers and the nature of all services provided,
- all unadjusted gross revenue amounts (by customer, by service type),
- all adjustments/credit memos (including deductible sales tax amounts), etc., to gross revenues and the nature of such adjustments/credit memos (by customer, by service type),
- disclosure of any estimated amounts included in the current month's reported gross revenues (by customer, by service type) and
- disclosure of any current month reported gross revenues adjusting an earlier month's reported amount (by customer, by service type).

SUMMARY

The OIG' findings of large underpayments of revenue are, of course, important. But we are equally concerned about the issue of how committed ASMO is to fully complying with the terms of its permit agreements. We find that the quality of ASMO's performance should be no less important to MDAD than the quantity of ASMO's gross revenues—whether ASMO accurately reports them or not. In addition, we believe that our audit results convincingly raise a number of "red flags" about

MDAD's permittee operations, in general, and ASMO's performance, specifically. We stress that many of these "red flags" are lingering issues that AMS raised in its audit of ASMO's performance during the years between 2000 and 2004.

We believe that ASMO's own continuing and documented reporting performance deficiencies rebuts any defenses it may raise that the conditions described by the OIG are the result of honest mistakes or the occasional careless accounting. We believe that ASMO's unsatisfactory performance is, at best, the result of inattentive management and severe weaknesses in its internal control structure, as particularly demonstrated by its failure to report any curbside baggage check-in revenues.
Consequently, one surely anticipated overall recommendation is that MDAD seriously consider ASMO's fitness to continue providing services at MIA. At a minimum, MDAD should consider imposing additional reporting requirements on ASMO to enhance its ability to place reasonable reliance on ASMO to perform faithfully and honestly, under the required terms of its various agreements.

A second important underlying issue concerns MDAD's permit administration functions. We find that MDAD has consistently not performed well, such as by allowing ASMO to submit late annual audit reports and not maintain its letter of credit at the required level—some of the same red flags previously reported by AMS. More critically, MDAD appears to have been content to accept what the OIG has termed a too simplistic, useless management tool for reviewing ASMO's monthly gross revenues.

Moreover, MDAD's position that it can rely on the required annual audits to provide adequate assurance that ASMO is completely, accurately and promptly reporting its gross revenues is misguided. In April 2005, the County's AMS Department issued a report wherein one of its findings was that ASMO misstated its gross revenues by over $719,000 and, as a result, did not pay over $50,000 of percentage fees. As with our own questioned costs, these AMS amounts were also subject to an annual audit. This should have been warning enough to MDAD that it needed to enhance its own oversight and that the annual audits were not working as intended.

We believe that our findings indicate that MDAD's oversight and revenue accounting functions, as related to the ASMO GASP and SSP, need immediate management attention. From ASMO's careless, if not negligent, revenue accounting to MDAD's own virtually non-existent oversight, the OIG is concerned that MDAD is not receiving its rightful percentage fees due under these permits. Another OIG concern is that these conditions likely extend to MDAD's other permittees. This leads us to our second anticipated overall recommendation. MDAD must examine its overall permitting oversight activities and take all reasonable steps to ensure that all permittees are complying with their respective agreements.

Our audit results show that management cannot limit its operational responsibilities to a cursory review of a single page monthly report or a CPA's annual audit without risking adverse impacts. Rather, management must proactively manage this and the other permittees to ensure that they report completely, accurately and promptly their gross revenues and pay their percentage fees timely.

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.

OIG
APPENDIX A

MIAMI-DADE AVIATION DEPARTMENT RESPONSE

DATED JULY 17, 2007

Memorandum

MIAMI-DADE COUNTY

Date: July 17, 2007

To: Christopher Mazzella, Inspector General

From: José Abreu, Aviation Director

Subject: **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**

The Miami-Dade Aviation Department thanks the Office of the Inspector General (OIG) for its audit of American Sales and Management Organization (ASMO) and the recommendations contained therein. The Department has taken the following corrective actions based on the information contained in the OIG's report:

- Invoiced ASMO for underreported amounts and advised the Company to use only actual numbers in its reports.
- Assessed the appropriate late charges effect June 1, 2007.
- Is in the process of re-designing the monthly report of gross sales format to more accurately reflect reporting discrepancies.
- Is 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.
- Has an in-house audit group based in the Professional Compliance Division conducting compliance audits of permit holders to ensure accuracy of reported revenues.

OIG
APPENDIX B

AMERICAN SALES AND MANAGEMENT CORPORATION RESPONSE

DATED MAY 29, 2007

May 29, 2007

Via email: novoav@miamidade.gov

Chistopher R. Mazzella
Inspector General
Office of the Inspector General
19 West Flagler Street, Suite 220
Miami, Florida 33130

RE: Response to audit draft report IG06-71A

Mr. Mazzella:
Below please find responses to your findings listed in the order originally presented in the draft report.

Finding No. 1:

The explanations provided to the auditor, although not convincing to him, were indeed valid, true and legitimate explanations as the reasons for the inadvertent un-reporting the revenues. We have taken all necessary corrective measures to insure that gross revenues are reported timely and accurately and that incidents that occurred in 2005 would not repeat themselves. This includes changes to our internal accounting procedures as well as software enhancements/controls which allows us to achieve these measures. ASMO is awaiting from Miami-Dade Aviation Department invoices for late charges related to April and June 2005. Once received, ASMO will remit payment.

Finding No. 2:

Because the reporting deadline was 10 days after the close of the month, often times it was difficult to prepare our gross revenues report as many of our client invoicing was not completed by that time. For example, many of our clients get invoiced based on passenger enplanement count as provided by Miami-Dade Aviation. This report historically is not ready for dissemination to the public until after the 25^{th} of the month. Although we were not aware that the use of estimates needed to be disclosed, we did indeed use estimate on occasions and did indeed reconcile those estimates to actual in the following month. We have taken all necessary corrective measures to insure that estimated gross revenues are identified on the gross revenue report. Also, procedures have been implemented to insure accurate "estimate-to-actual" reconciliation/reporting for those clients affected. This includes changes to our internal accounting procedures as well as software enhancements/controls which allows us to achieve these measures. All unreported gross revenues referred to were reported upon notification from auditor and related fees were paid in the January 2007 report.

Finding No. 3:

The revenues referred to as check-in baggage were identified by ASMO, contrary to auditors comments, before the auditor inquired as to these services and raised questions about credits to one of our airline passengers. In fact, internal memos and reports were provided to the auditor to support this. A few months did go by without these revenues making it to our report because this was new and an unconventional service/transaction between ASMO and our client. These revenues have been since accurately and timely reported on a monthly basis. All under reported revenue referred to in finding totaling $265,874 were indeed reported and subsequently paid in the December 2006, January and February 2007 gross revenue reports. ASMO is awaiting from Miami-Dade Aviation Department invoices for late charges related to this finding. Once received, ASMO will remit payment.

Finding No. 4:

Although we paid the $6,428 in 2005, and are once again paying port fees on this income, we disagree that this income is subject to port fees. We purchased equipment from American Airlines (AA) in connection with a cabin cleaning contract which was awarded to us. As a condition to the award, we were required to purchase specialized equipment from AA. Contractually, this equipment must be returned to AA at the end of the contract. Therefore the cost of this equipment was amortized over the life of the contract and that amount was charged back to AA as a deprecation charge. Since ASMO is required to pay a port fee on this "income," then an argument can be established that ASMO should take a credit for the amount paid when they made the initial purchase.

Finding No. 5:

As noted in response to finding number two, many of our clients get invoiced based on passenger enplanement count as provided by Miami-Dade Aviation. This report historically is not ready for dissemination to the public until after the 25th of the month. Our SSP report is due to the county on the 10th of the month. As such, the revenues are reported in the subsequent month. However, as noted that these late charges are de minimis, ASMO has started reporting these revenues and identifying them as "estimates" on the SSP report in the current period, therefore avoiding the 30 day lag. ASMO is also reconciling these the following month and making any necessary adjustments as needed.

Finding No. 6:

We would be privileged to work together with MDAD in order to either design a new reporting format or modify its existing report in order to capture and identify items such as estimates, prior period adjustments, and other reconciling items.

Finding No. 7:

Other that with American Airlines, because of their assertions to us in writing as well as verbal, ASMO has instituted a policy that if no exemption certificates are provided or direct pay permits from the Florida Department of Revenue, sales taxes will be assessed and remitted to the State.

Finding No. 8:

No comment.

Finding No. 9:

We feel that the Office of the Inspector General (OIG) should perform these annual audits on behalf of the county and Miami-Dade Aviation Department. The OIG has the authority, the time, and the necessary resources to conduct an in-depth audit without the time and budgetary constraints that independent certified public accountants sometimes have. Independent CPA firms use sampling methods, do not review every transaction, and are also limited with the amount of time they can spend on an engagement due to fee restraints.

Finding No. 10:

No comment. We would be privileged to work together with MDAD in order to achieve a better reporting/compliance system. We would welcome for either MDAD or its chosen agent to review our accounting processes/procedures, airline contracts, and reporting methods. Our goal is to provide accurate timely reporting.

If you have any questions or would like to discuss this further, please contact me at 305-269-2717 or via email at rvelazquez@asmorgcorp.com

Respectfully Yours,

Rene Velazquez
Vice President & CFO