




Memorandum

19 West Flagler Street ♦ Suite 220 ♦ Miami, Florida 33130
Phone: (305) 375-1946 ♦ Fax: (305) 579-2656
visit our website at www.miamidadeig.org

To: The Honorable Carlos Alvarez, Mayor
Miami-Dade County

From:  Christopher Mazzella, Inspector General

Date: September 25, 2008

Subject: OIG Final Report Re: SMI Security Management, Inc.'s MDAD Permit No. 002975 to Provide Security Services at Miami Intl' Airport; Ref. IG07-46

Attached please find the Office of the Inspector General's (OIG) final report regarding the above-captioned matter. Our investigation concluded that SMI Security Management Inc. (SMI) underpaid the Miami-Dade County Aviation Department (MDAD) \$96,027 in opportunity fees a.k.a. permit fees for the 12-month period of May 2006 - April 2007. While the money has since been repaid, the OIG's investigation reveals SMI's disturbingly close association to Sereca Security, a company also investigated by the OIG and who recently had its permit to conduct business at Miami International Airport revoked.

The attached final report has a written response from SMI attached as Appendix A. The OIG's rejoinder to the response is also noted at the end of the report.

The OIG is requiring that MDAD provide us with a status report in 60 days, to be received by Wednesday, November 26, 2008, stating its appraisal of SMI's suitability for continued permittee status. Additionally, the OIG recommends that MDAD assess all possible fines, interest and penalties against SMI for its misreporting of gross revenues.

Attachment

cc: Commissioner Jose "Pepe" Diaz, Chair, Airport and Tourism Committee
Mr. George Burgess, County Manager
Ms. Ysela Llord, Assistant County Manager
Mr. Jose Abreu, Director, Miami-Dade Aviation Department
Ms. Cathy Jackson, Director, Audit and Management Services Department
Mr. Charles Anderson, Commission Auditor
Clerk of the Board (copy filed)
Ms. Karina Aponte, SMI (under separate cover)

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL
Final Report Re: SMI Security Management, Inc.
MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

INTRODUCTION & SYNOPSIS

In January 2006, the OIG initiated an investigation of a private security services firm that was providing security services to airport tenants, i.e. airlines, at Miami International Airport (MIA). The firm, JMG Insystems, Inc., d/b/a Sereca Security (hereinafter “Sereca”), doing business at the airport pursuant to a permit issued by Miami-Dade County (the County) paid an opportunity fee, also known as a permit fee, of seven percent (7%) of the gross revenues that it makes from its airport business. The OIG found that Sereca had drastically underreported its gross revenues and, thus, underpaid the County over \$200,000 in one year.¹ Thereafter, the OIG broadened its review to include similarly situated security providers to check the accuracy of their reported revenues and remittances of permit fees to the County. One such company subsequently reviewed was SMI Security Management, Inc. (SMI).

The OIG’s investigation of SMI revealed that it failed to pay the Miami-Dade County Aviation Department (MDAD) monthly opportunity fees totaling **\$96,027** for the 12-month period of May 2006 through April 2007. This underpayment of fees was accomplished by underreporting \$1.4 million of gross revenues received from its two clients at MIA. The bulk of the underreported revenue (\$1.25 million) was earned by SMI during the 7-month period of May 2006 through November 2006. Thereafter, in December 2006, most probably reacting to the OIG’s investigation of Sereca Security, SMI’s monthly reported gross revenues substantially increased—albeit they were still inaccurate.

An annual audit was prepared by a certified public accounting firm (CPA) for the same 12-month period of May 2006 through April 2007. The audit acknowledged that SMI substantially underreported its gross revenues in amounts nearly identical to those found in the OIG investigation.

In August 2007, SMI, in discussions with the County Attorney’s Office, acknowledged it had underreported its revenue, and began making periodic payments of \$19,259.57 to MDAD. SMI made five such payments through December 2007 totaling \$96,297.85.

The OIG’s investigation also disclosed that SMI has close ties with Sereca, which extend beyond the underreporting of revenue, and concern the ownership, management, and control of the company’s operations. Since Sereca has had its permit to provide security services revoked by MDAD, the OIG believes that the ties shared between Sereca and SMI are relevant to a determination of SMI’s performance under its permit with MDAD.

¹ See OIG Final Report on JMG Insystems, Inc. d/b/a Sereca Security, a security services permittee at MIA, Ref. IG05-147. Report dated February 13, 2007.

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL
Final Report Re: SMI Security Management, Inc.
MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

BACKGROUND

In January 2003, SMI Security Management Inc. filed its initial Articles of Incorporation with the State of Florida. Jose M. Gonzalez was listed as the registered agent. The corporation's annual reports for 2004 and 2005 listed Mr. Gonzalez as the registered agent and president. On July 21, 2005, Mr. Gonzalez was removed as the registered agent and Peninsula Registered Agents, Inc., was appointed the new registered agent. The 2006 annual report, filed in February 2006, reflects the change of corporate president from Mr. Gonzalez to Alejandro Rodriguez. Another change occurred approximately seven months later, about September 11, 2006, when Jorge Mora was designated the president of SMI. One month later, Mr. Mora was removed and on or about November 14, 2006, Karina Aponte was named as SMI's new president. The 2007 annual report was filed listing Ms. Aponte as the president of the company.

The OIG conducted an investigation of Sereca for calendar year 2005. Sereca was an MDAD permittee and provided security services to various airlines operating at MIA. The president of Sereca was, and currently is, Jose M. Gonzalez—the same person that founded SMI and was its president for three years. The OIG's investigation found that Sereca underreported its gross revenue by over \$4 million and owed MDAD approximately \$200,000 in additional opportunity fees. As of September 2007, MDAD revoked Sereca's permit and it no longer conducts business at MIA. Sereca started making payments to MDAD for its liabilities in August 2006. Payments totaling \$228,117 as of April 17, 2008 continue to be made. A recent CPA audit of Sereca for the year 2006 was completed in February 2008 and found an additional \$129,000 owed to MDAD in undeclared opportunity fees.

Sereca provided security services to eight airlines doing business at MIA. Two of these airlines were LAN and Florida West International. Both airlines switched to SMI for their security services and were the only two airlines for which SMI provided security services at MIA during the period covered by this investigation.

INVESTIGATION

In July 2007, following the investigation of Sereca Security, the OIG initiated a review of SMI's revenue reporting pursuant to its MDAD permit. Inasmuch as Sereca substantially underreported its gross revenue from LAN and failed to report any revenue received from FWI, the OIG conducted a review of SMI's monthly revenue reports filed with MDAD. Additionally, the OIG focused on the close ties between the two companies, which were evinced by the fact that Jose Manuel Gonzalez was concurrently serving as president of both Sereca and SMI.

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL

Final Report Re: SMI Security Management, Inc.

MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

MIA and the resulting opportunity fees. The audit's findings essentially matched the OIG's findings of underreporting, and thus underpayments to MDAD.²

The audit revealed that SMI had underreported its gross revenues by substantial amounts for the period of May 2006 through November 2006. Revenues for December 2006 through April 2007 were also underreported, however, by much reduced amounts.

TABLE 2: Independent Audit Figures Contrasted with OIG Figures³

MONTH	CPA DETERMINED GROSS REVENUES	SMI REPORTED GROSS REVENUES	SMI PERMIT FEES PAID	CPA DETERMINED ADDITIONAL FEES DUE	OIG DETERMINED GROSS REVENUES	OIG DETERMINED ADDITIONAL FEES DUES
May 06	\$ 127,477	\$ 44,080	\$3,086	\$ 5,838	\$ 132,853	\$ 6,214
Jun. 06	261,572	101,231	7,086	11,224	255,928	10,829
Jul. 06	321,387	123,920	8,674	13,823	320,401	13,754
Aug. 06	260,407	102,497	7,175	11,054	259,467	10,988
Sept. 06	261,025	106,520	7,456	10,815	261,350	10,838
Oct. 06	414,682	135,577	9,490	19,537	414,401	19,518
Nov. 06	352,796	119,063	8,334	16,361	352,739	16,357
Dec. 06	338,375	217,756	22,243	1,443	337,439	1,378
Jan. 07	456,137	433,363	30,335	1,594	458,642	1,770
Feb. 07	370,285	350,340	24,524	1,396	367,295	1,187
Mar. 07	347,119	326,500	22,855	1,443	346,892	1,427
Apr. 07	444,255	418,988	29,329	1,769	444,227	1,767
TOTALS	\$3,955,517	\$2,479,835	\$180,587	\$96,297	\$3,951,634	\$96,027

The audit figures are similar to the OIG's computations with the independent audit reflecting a slight upward variance in fees due. Upon completion of the audit in August 2007, SMI began making monthly payments to MDAD of \$19,259.57. SMI made five such monthly payments through December 2007 totaling \$96,297.85.

When examined individually by client, the patterns of underreporting are more visible. For example, in the case of LAN, there is a dramatic increase in SMI's reported gross revenues from December 2006 forward. In the case of FWI, this client continued to remain undisclosed from MDAD on SMI's monthly reports. Tables 3 and 4 on the following page illustrate SMI's underreporting and non-reporting with respect to these two clients.

² Although the OIG obtained records through May 2007, the following computations were limited to the one-year period of May 2006 through April 2007 to display an exact comparison with the independent audit results.

³ OIG computations were based on the accounts payable information obtained from SMI's clients, LAN and FWI. Conversely, the CPA firm's data most likely was obtained from its client—SMI.

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL

Final Report Re: SMI Security Management, Inc.

MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

In May 2006, two of Sereca's clients, LAN and Florida West International (FWI), ceased doing business with Sereca and contracted with SMI for the provision of security services at MIA. The OIG obtained records from LAN and FWI for the services provided by its vendor—SMI—covering the period of May 2006 through May 2007. By reviewing accounts payable information and other records supplied by LAN and FWI, the OIG could determine how much money these airlines had actually paid to SMI for security services. When these amounts were compared against what SMI reported to MDAD on its monthly revenue reports, it was clear that SMI had substantially underreported its gross revenues, thus resulting in underpaying requisite permit fees. The OIG noticed that revenues were grossly underreported by as much as 63 percent for the 7-month period of May – November 2006. In other words, SMI only reported approximately \$1 for every \$3 earned.

TABLE 1: Monthly Revenue for the Period of May through November 2006

Client	Gross Revenue Reported	Actual Gross Revenue	Underreported Gross Revenue
LAN	\$732,886	\$1,924,274	\$1,191,388
FWI	0	72,865	72,865
Total	\$732,886	\$1,997,139	\$1,264,253

During this period, SMI paid opportunity fees totaling \$51,302. The actual fees due was \$139,800 resulting in an underpayment totaling \$88,498.

In December 2006, SMI dramatically increased the amount of revenue it reported on its monthly revenue reports relative to LAN. (SMI continued to omit all of its revenues received from FWI.) For the 6-month period of December 2006 through May 2007, SMI reported a total of \$2,189,670—three times the total amount reported for the previous seven months. It should be noted, however, that although SMI significantly increased its reported revenue, it made no attempt to account for the underreported amounts of the previous seven months until August 2007. SMI, possibly reacting to the OIG's Sereca investigation and/or County Attorney's Office inquiries stemming from the Sereca investigation, had its own audit conducted by a Certified Public Accounting firm (CPA firm).

SMI's Independent Audit Results

In July 2007, an independent audit was conducted by a CPA firm covering the period of May 2006 through April 2007. The audit focused on the gross revenues earned by SMI at

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL

Final Report Re: SMI Security Management, Inc.

MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

TABLE 3: LAN Additional Fees Due per OIG

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
MAY 06	\$130,166	\$44,080	\$86,086	\$6,026
JUNE 06	\$245,445	\$101,231	\$144,214	\$10,095
JULY 06	\$307,042	\$123,920	\$183,122	\$12,819
AUGUST 06	\$248,930	\$102,497	\$146,433	\$10,250
SEPTEMBER 06	\$250,813	\$106,521	\$144,292	\$10,100
OCTOBER 06	\$400,630	\$135,577	\$265,053	\$18,554
NOVEMBER 06	\$341,250	\$119,063	\$222,187	\$15,553
DECEMBER 06	\$326,323	\$317,756	\$8,567	\$600
JANUARY 07	\$444,349	\$433,363	\$10,986	\$769
FEBRUARY 07	\$356,179	\$350,340	\$5,839	\$409
MARCH 07	\$335,776	\$326,500	\$9,276	\$650
APRIL 07	\$430,332	\$418,988	\$11,344	\$794
TOTALS	\$3,817,235	\$2,579,836	\$1,237,399	\$86,619

TABLE 4: Florida West Additional Fees Due per OIG

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
MAY 06	\$ 2,688	\$ 0	\$ 2,688	\$ 188
JUNE 06	10,483	0	10,483	734
JULY 06	13,359	0	13,359	935
AUGUST 06	10,537	0	10,537	738
SEPTEMBER 06	10,537	0	10,537	738
OCTOBER 06	13,771	0	13,771	964
NOVEMBER 06	11,489	0	11,489	804
DECEMBER 06	11,116	0	11,116	778
JANUARY 07	14,292	0	14,292	1,000
FEBRUARY 07	11,116	0	11,116	778
MARCH 07	11,116	0	11,116	778
APRIL 07	13,896	0	13,896	973
TOTALS	\$134,400	\$ 0	\$134,400	\$9,408

It is extremely relevant to highlight that SMI's clients—LAN and FWI—were previously Sereca's clients. LAN was, in fact, Sereca's largest account in 2005, making up half of its total security services business at MIA (two out of four million dollars total). Likewise, for 2005 underpaid amounts, LAN's accounts also represented Sereca's largest cut of fees owed to MDAD (\$103,924 of a total \$209,114 owed). For 2005, Sereca only reported—and thus paid—only 28 percent of LAN's gross revenue accounts.

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL
Final Report Re: SMI Security Management, Inc.
MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

FWI, while not a significant client attributing to Sereca's total gross revenues—only 3 percent—had 100 percent of its revenues underreported by Sereca. In other words, based upon FWI's records obtained by the OIG, FWI paid Sereca \$107,056 in 2005. Sereca did not identify FWI on its monthly revenue reports and, thus, remitted nothing to MDAD for services rendered pursuant to the permit.

We believe that the timeline of our earlier Sereca investigation is extremely relevant to the matters reported herein relative to SMI's underreporting. The OIG's investigation of Sereca was initiated in December 2005. In December 2005 and January 2006, the OIG initiated a massive documents request from approximately 50 MIA tenants, e.g. airlines and other companies that would be in possible need of security services. In February 2006, Jose M. Gonzalez was de-listed as SMI's president and another individual was named. Shortly thereafter, Mr. Gonzalez, in his capacity as principal and president of Sereca, was interviewed twice by OIG Special Agents; the first time on March 3, 2006 and, again, on April 17, 2006. A few weeks later in May 2006, LAN and FWI ceased having services provided by Sereca. They were now clients of SMI. In July 2006, a Miami Herald article appeared revealing the OIG's investigation of Sereca. On November 8, 2006, the OIG issued its draft report about Sereca to Mr. Gonzalez in accordance with our requirements under County Code. In December 2006, SMI substantially increased its reported amounts received from LAN. In February 2007, the OIG issued its final report on the Sereca matter. In the course of follow-up, additional amounts for other years were also determined to be owed by Sereca to MDAD. In August 2007, Sereca's permit was revoked. On August 14, 2007, SMI began making monthly payments to MDAD to account for approximately \$96,000 in unpaid fees to the County.

Records of the State of Florida

The Florida Department of Agriculture is responsible for the licensure of security agencies and private investigative agencies. In order to obtain the necessary agency license, there must be a responsible person licensed as manager.⁴

From its inception in 2003 until approximately August 2007, SMI operated its security agency under the manager's license of Jose M. Gonzalez. Karina B. Aponte succeeded Gonzalez as SMI's security agency manager upon issuance of her license. As of November 29, 2007, the SMI Private Investigative Agency license, a separate license required by the State, was approved but not issued. Jose M. Gonzalez remains the designated manager.

⁴ See section 493.6106 (2) (d), Florida Statutes.

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL
Final Report Re: SMI Security Management, Inc.
MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

COMMENTS TO THE OIG'S DRAFT REPORT & OIG REJOINDER

We note that copies of this report in a draft format were provided to Ms. Karina Aponte, as President of SMI, and Mr. Jose M. Gonzalez for their review and discretionary comment. A copy was also provided to MDAD for its discretionary comment as well. The OIG only received a response from Ms. Aponte, which is attached hereto as Appendix A.

Ms. Aponte, as president of SMI, states that SMI commenced its operations in May 2006 and “[s]ince that time SMI has been paying all of the related airport fees promptly and on-time.” The letter goes on to say that, “[a] discrepancy of fees owed to the airport was promptly paid by SMI with the consent of the Miami Dade Aviation Department.” The letter further explains that audits were conducted and were subsequently reviewed by a consultant hired by the County; and that most recently an audit of SMI’s financial records for the period July 1, 2007 – June 30, 2008 was performed by SMI’s certified public accountant.

The OIG rejoins SMI’s response to note that Ms. Aponte’s characterization that SMI was paying all of the airport related fees is quite a stretch. As depicted in Table 1 on page 3 of the report, SMI paid zero of its earning from FWI and only paid 37% of what it should have for LAN for the period May through November 2006. Up through April 2007, SMI still had not acknowledged(through the remittance of opportunity/permit fees) that FWI was its client. Lastly, to characterize MDAD’s receipt of owed amounts as some form of a consent is disingenuous. We believe that the word “consent” inappropriately describes MDAD’s demand that monies wrongly withheld be paid.

Upon careful review of the written response received, the OIG has determined that no material changes to the report were warranted.

CONCLUSION & RECOMMENDATION

For the 12-month period from May 2006 through April 2007, SMI failed to report approximately \$1.5 million of its gross revenues. SMI has since acknowledged that it underpaid MDAD \$96,267 and has also since paid that amount, albeit without any assessments of fines, late payments, or interest. Therefore, it is recommended that MDAD compute the appropriate penalties and pursue collection of this amount from SMI.

More importantly, we believe that any reasonable person could deduce from these facts that the underreporting of LAN and FWI’s revenues by SMI were intentional. First, because they were Sereca’s clients where the same patterns of underreporting occurred (approximately 25 percent of LAN’s gross revenue and zero of FWI’s). Second, because of

MIAMI-DADE COUNTY OFFICE OF THE INSPECTOR GENERAL
Final Report Re: SMI Security Management, Inc.
MDAD Permit No. 002975 to Provide Security Services at Miami International Airport

the timing of transferring these clients to SMI—LAN being the single largest client and FWI flying below the radar going un-reported—took place right after Mr. Gonzalez' second interview with OIG special agents. Third, in November 2006, in the same month that the draft report on Sereca was issued to Mr. Gonzalez, Karina Aponte was named SMI's president. Ms. Aponte was simultaneously the president of SMI while she was employed as an administrative assistant for Sereca. As part of the OIG's investigation of Sereca's underreporting, we learned that Ms. Aponte reported to Mr. Gonzalez and her job responsibilities with Sereca included preparing its monthly revenue reports. Fourth, in December 2006, the month after the report was received, SMI's monthly revenue reports increased dramatically. Lastly, even though Mr. Gonzalez was removed as an officer of SMI, the company still operated under his Security Manager License until at least August 2007.

MDAD should consider the relationship of SMI to Sereca for the purpose of determining whether SMI should be allowed to continue operating at MIA. Sereca had its permit revoked due to its intentional underreporting of revenue and is prohibited from operating at MIA. SMI followed the same scheme by underreporting its revenue up and until the completion of the Sereca investigation. These findings should weigh into MDAD's appraisal of SMI's suitability for continued permittee status.

The OIG requests that MDAD provide us with a status report in 60 days, on or before Wednesday, November 26, 2008, regarding 1) our recommendation that MDAD compute the appropriate monetary penalties (including interest) and pursue collection of this amount from SMI, and 2) that MDAD consider these findings in appraising SMI's suitability for continued permittee status.



Security Officers
Investigations
Consulting
Technology

September 11, 2008

Via U.S. Mail and Faxed to: (305) 579-2656

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

2008 SEP 12 AM 11:30
OFFICE OF THE
INSPECTOR GENERAL

Reference: OIG Draft Report-IG07-46

Dear Inspector Mazzella:

As president of SMI Security Management, Inc., please be advised that I am in receipt of the OIG Draft Report IG07-46. In accordance with Section 2-1076(f) of the Code of Miami-Dade County, please accept this letter as a response to the draft report.

SMI Security Management, Inc. prides itself in offering first class security services to its clients at the Miami International Airport. SMI employs approximately 221 employees in the Miami International Airport. SMI commenced operations in May, 2006. Since that time SMI has been paying all of the related airport fees promptly and on-time. A discrepancy of fees owed to the airport was promptly paid by SMI with the consent of the Miami Dade Aviation Department. Francisco Arguelles, CPA was hired by SMI to conduct the annual audit as required by the Miami Dade Aviation Department. Mr. Arguelles conducted an audit of SMI's schedule of gross revenues arising out of the Miami International Airport. After the audit was completed, Dennis Herbenick, Construction Claims Consultant hired by the County, conducted an audit of the audit that Mr. Arguelles performed for the period of May 2006 through May 2007. Mr. Herbenick concluded that after review of all of the records, he had a high level of confidence that the revenues reported in Mr. Arguelles and SMI's report were reasonably accurate.

APPENDIX A

Quality Services
Professionally
Delivered

SMI Security Management, Inc. 2501-B NW 72nd Ave. Miami, Florida 33122
Office: 305-406-2800 Fax: 305-406-2810. e-mail: smisecurity@bellsouth.net



Security Officers

Investigations

Consulting

Technology

In an effort to continue complying with the Miami Dade Aviation Department regulations, Mr. Arguelles recently completed the annual audit of SMI's financial records for the period of July 1st, 2007 to June 30th, 2008. Mr. Arguelles' audit found that SMI schedule of gross revenues arising out of the Miami International Airport and percentage permit fees paid during that time period correctly reflect the not only the gross revenue generated at the airport but also the permit fees paid by SMI.

SMI looks forward to continue to work with the Miami-Dade Aviation Department and Miami-Dade County. Should you have any questions or concern, please feel free to call me.

Sincerely,

A handwritten signature in black ink that reads "Karina Aponte". The signature is written in a cursive style with a large, stylized initial "K".

Karina Aponte
President

*Quality Services
Professionally
Delivered*

SMI Security Management, Inc. 2501-B NW 72nd Ave. Miami, Florida 33122
Office: 305-406-2800 Fax: 305-406-2810. e-mail: smisecurity@bellsouth.net