




Memorandum

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To: Mr. George Burgess, County Manager

From:  Christopher Mazzella, Inspector General

Date: February 13, 2007

Subject: OIG Final Report on JMG Insystems, Inc. d/b/a Sereca Security, a security services permittee at MIA, Ref. IG05-147

Attached please find the Office of Inspector General's (OIG) Final Report on JMG Insystems, Inc., d/b/a Sereca Security (Sereca), a security services firm providing services at Miami International Airport under permit with the Miami-Dade Aviation Department. This report, as a draft, was furnished to the subject company, for its review and comment. The OIG has not received any response from Sereca to the draft report.

The OIG's investigation found that for the year 2005, Sereca underreported its gross revenues to MDAD by \$3 million. This equates to Sereca shortchanging MDAD \$209,000 in permit fees. The OIG's reconciliation of Sereca's gross revenues was limited to only 2005, and we highly recommend that previous years and 2006 should also be reconciled by MDAD.

The OIG's other suggested prospective action include taking contractual and administrative actions against Sereca. We hereby request that you advise the OIG within 30 days of your planned actions to address these findings. We would appreciate a written response on or before Friday, March 16, 2007.

For your information, this matter was forwarded to the State Attorney's Office for prosecutive considerations.

CC: Mayor Carlos Alvarez, Miami-Dade County
Chairman Bruno A. Barreiro, Board of County Commissioners
Commissioner Jose "Pepe" Diaz, Chair, Airport and Tourism Committee
Ms. Katherine Fernandez Rundle, State Attorney, Eleventh Judicial Circuit
Mr. Jose Abreu, Director, Miami-Dade Aviation Department
Ms. Cathy Jackson, Director, Audit and Services Management Department
Mr. Charles Anderson, Commission Auditor

Clerk of the Board (copy filed)

MIAMI-DADE COUNTY
OFFICE OF THE INSPECTOR GENERAL



FINAL REPORT

Jose Manuel Gonzalez
d/b/a Sereca Security
IG05-147

February 13, 2007

**MIAMI-DADE OFFICE OF THE INSPECTOR GENERAL
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SYNOPSIS

On December 21, 2005, the Office of Inspector General (OIG) received information from a confidential source alleging that Jose Manuel Gonzalez (Gonzalez), the owner of Sereca Security Corporation (Sereca), a security guard business doing business at Miami International Airport (MIA), was fraudulently under-reporting the amount of revenue he was earning at MIA. By doing this, Gonzales was not paying Miami-Dade County Aviation Department's (MDAD) their prescribed seven percent fee. The fees paid to MDAD are based on the amount of revenue reported to MDAD by providers of service to airport tenants. The confidential source had obtained some information that led the OIG to believe Gonzalez had not paid the required fees.

Based on this information, an investigation was conducted and evidence was obtained that corroborated the allegations of fraudulent activity involving the under-reporting of revenue and fees for the period of January 2005 through December 2005. This evidence consisted of monthly revenue reports obtained from MDAD records, invoices from MDAD tenants and from Sereca, payments received by Sereca from its customers, and witness statements that showed Sereca did \$4,030,290.59 in business for tenants at MIA and only reported \$1,042,936.13 to MDAD, thereby defrauding MDAD of \$209,114.81 in fees that it failed to pay.

TABLE 1: Sereca Security, Summary of Additional Fees Owed to MDAD for 2005

CLIENT	SERVICES RECEIVED	SERVICES REPORTED	UNDER-REPORTED	FEES SERECA PAID	ACTUAL FEES DUE	ADDITIONAL FEES OWED
Avianca	\$663,116.38	\$168,291.30	\$494,825.08	\$11,780.39	\$46,418.15	\$34,637.76
LAN Chile	\$2,072,933.78	\$588,300.68	\$1,484,633.10	\$41,181.05	\$145,105.36	\$103,924.32
Strategic Air Services	\$67,941.52	\$15,055.40	\$52,886.12	\$1,053.88	\$4,755.91	\$3,702.03
Arrow Cargo	\$584,862.79	\$140,801.27	\$444,061.52	\$9,856.09	\$40,940.40	\$31,084.31
Amerijet	\$401,792.59	\$104,908.53	\$296,884.06	\$7,343.60	\$28,125.48	\$20,781.88
TACA	\$123,715.44	\$25,578.95	\$98,136.49	\$1,790.53	\$8,660.08	\$6,869.55
Florida West Intl.	\$107,059.93	0	\$107,059.93	0	\$7,494.19	\$7,494.19
LACSA	\$8,868.16	0	\$8,868.16	0	\$620.77	\$620.77
TOTAL	\$4,030,290.59	\$1,042,936.13	\$2,987,354.46	\$73,005.53	\$282,120.34	\$209,114.81

BACKGROUND

Sereca is a business incorporated in the State of Florida under the name of JMG Insystem, Inc., whose sole principal is Jose M. Gonzalez. Sereca was issued a Security Service Permit by the MDAD effective December 1, 2004. This permit was issued pursuant to Miami-Dade Administrative Order No. 8-5 and allows Sereca to provide security services to MDAD tenants. In consideration for being allowed to provide security, Sereca is required to pay a fee of seven percent (7%) of all its gross revenues for services rendered to MDAD tenants. Payment of this fee is done on a monthly basis, based on the amount of gross revenue reported by Sereca. This

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monthly report is to list all gross revenues received from each airport tenant and is signed and attested to by a corporate officer. For the period relevant to this report, the permit and monthly reports were purported to be signed by Gonzalez, as President of Sereca, with the exception of one monthly report that was submitted unsigned. The computation of gross revenues was done based on the issue dates of the checks paid to Sereca. From January 2005 through December 2005, Sereca reported to MDAD revenues in the amount of \$1,042,936.13 from the following tenants:

TABLE 2 – Reported Revenues by Tenant

Tenant	Reported Revenue
Avianca	\$168,291.30
LAN Chile	\$588,300.68
Strategic Air Services	\$15,055.40
Arrow Cargo	\$140,801.27
AmeriJet	\$104,908.53
TACA	\$25,578.95
TOTAL	\$1,042,936.13
7% Fee on Total	\$73,005.53

Based on these reported gross sales, Sereca paid MDAD the required seven percent fee totaling \$73,005.53.

INVESTIGATION

The OIG requested that MDAD furnish copies of all monthly revenue reports filed by Sereca for the year 2005. These reports provided the names of the airport tenants that Sereca identified as its customers, along with the total amount of revenue it reported. The monthly reports identified Sereca's clients as the following tenants: TACA, AmeriJet, Arrow Cargo, Strategic Air Service, Avianca, and LAN Chile. The OIG then served subpoenas to each of the tenants and obtained copies of all invoices received by them from Sereca and copies of all payments made by them to Sereca. A subpoena was also served to Sereca for, amongst other items, its invoices to the airport tenants and other billing records.

The checks obtained from Sereca's clients were later analyzed and a discrepancy was noted in the amount of gross revenues that Sereca reported to MDAD and the actual amount of gross revenue Sereca had received from these clients. The total revenue as reported by the clients Sereca identified and subject to the seven percent fee was \$3,914,362.50. The fees owed on this revenue are \$274,005.38. However, the monthly revenue reports Sereca filed with MDAD for the twelve months of 2005 claimed total revenue of \$1,042,936.13, and the seven percent fee of \$73,005.53 was paid to MDAD. Additionally, the OIG identified two other airline clients that

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Sereca failed to identify or report any of the revenue received. These two airlines are Florida West International and LACSA. The revenue received from these two airlines totaled \$115,928.09. The additional seven percent fee due MDAD was \$8,114.97.

The OIG believes Sereca under-reported its revenue by \$2,987,354.46 and owes MDAD \$209,114.81 in additional fees from the unreported revenue that Sereca earned from the eight clients.

A pattern of reporting random invoices or check payments was noticed as the documents were scheduled; some invoices were included in the gross revenue reported by Sereca and others were not. The schedules of invoices and checks from TACA, AmeriJet, Arrow Cargo, Strategic Air Service, and Avianca, reflect that Sereca reported revenue from approximately one of every four invoices or checks.

In the case of TACA, Gonzalez indicated in his monthly reports that he provided services to TACA in the amount of \$25,578.95. The records obtained from TACA reflect that Sereca was paid \$123,715.44. The unreported amount totals \$98,136.49. Therefore, MDAD was defrauded by Gonzalez of fees of \$6,869.55 ($\$98,136.49 \times 7\%$).

TABLE 3 – TACA Airlines Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
JULY	\$2,910.40	\$0.00	\$2,910.40	\$203.73
AUGUST	\$19,810.40	\$0.00	\$19,810.40	\$1,386.73
SEPTEMBER	\$34,807.54	\$6,611.74	\$28,195.80	\$1,973.71
OCTOBER	\$27,093.90	\$7,068.63	\$20,025.27	\$1,401.77
NOVEMBER	\$27,194.62	\$5,949.29	\$21,245.33	\$1,487.17
DECEMBER	\$11,898.58	\$5,949.29	\$5,949.29	\$416.45
TOTAL	\$123,715.44	\$25,578.95	\$98,136.49	\$6,869.55

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For AmeriJet, Gonzalez indicated in his monthly reports that he provided services in the amount of \$104,908.53. The records obtained from AmeriJet reflect that Sereca was paid \$401,792.59. The unreported amount totals \$296,884.06. MDAD was defrauded by Gonzalez of fees of \$20,781.88 (\$296,884.06 x 7%).

TABLE 4 – AmeriJet Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
FEBRUARY	\$0.00	\$0.00	\$0.00	\$0.00
MARCH	\$0.00	\$0.00	\$0.00	\$0.00
APRIL	\$0.00	\$0.00	\$0.00	\$0.00
MAY	\$0.00	\$0.00	\$0.00	\$0.00
JUNE	\$27,132.00	\$11,328.75	\$15,803.25	\$1,106.23
JULY	\$60,566.80	\$12,440.25	\$48,126.55	\$3,368.86
AUGUST	\$13,764.84	\$13,764.84	\$0.00	\$0.00
SEPTEMBER	\$73,131.99	\$16,536.23	\$56,595.76	\$3,961.70
OCTOBER	\$63,826.96	\$17,626.26	\$46,200.70	\$3,234.05
NOVEMBER	\$66,650.00	\$17,012.20	\$49,637.80	\$3,474.65
DECEMBER	\$96,720.00	\$16,200.00	\$80,520.00	\$5,636.40
TOTAL	\$401,792.59	\$104,908.53	\$296,884.06	\$20,781.88

For Arrow Cargo, Gonzalez indicated in his monthly reports that he provided services in the amount of \$140,801.27. The records obtained from Arrow Cargo reflect that Sereca was paid \$584,862.79. The unreported amount totals \$444,061.52. MDAD was defrauded by Gonzalez of fees of \$31,084.31 (\$444,061.52 x 7%).

TABLE 5 – Arrow Cargo Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
JUNE	\$56,806.00	\$27,442.80	\$31,363.20	\$2,195.42
JULY	\$64,885.60	\$27,442.80	\$37,442.80	\$2,621.00
AUGUST	\$87,029.24	\$14,700.84	\$72,328.40	\$5,062.99
SEPTEMBER	\$82,060.44	\$11,226.00	\$70,834.44	\$4,958.41
OCTOBER	\$39,916.80	\$19,958.40	\$19,958.40	\$1,397.09
NOVEMBER	\$100,334.03	\$21,332.03	\$79,002.00	\$5,530.14
DECEMBER	\$151,830.68	\$18,698.40	\$133,132.28	\$9,319.26
TOTAL	\$584,862.79	\$140,801.27	\$444,061.52	\$31,084.31

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For Strategic Air Services, Gonzalez indicated in his monthly reports that he provided services in the amount of \$15,055.40. The records obtained from Strategic Air Services reflect that Sereca was paid \$67,941.52. The unreported amount totals \$52,886.12. MDAD was defrauded by Gonzalez of fees of \$3,702.03 ($\$52,886.12 \times 7\%$).

TABLE 6 –Strategic Air Services Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
MAY	\$2,256.64	\$0.00	\$2,256.64	\$157.96
JUNE	\$5,794.05	\$1,936.43	\$3,857.62	\$270.03
JULY	\$12,068.31	\$1,924.91	\$10,143.40	\$710.04
AUGUST	\$9,971.89	\$1,936.43	\$8,035.46	\$562.48
SEPTEMBER	\$7,852.49	\$2,157.53	\$5,694.96	\$398.65
OCTOBER	\$8,721.63	\$2,151.80	\$6,569.83	\$459.89
NOVEMBER	\$9,013.27	\$2,419.73	\$6,593.54	\$461.55
DECEMBER	\$12,263.24	\$2,528.57	\$9,734.67	\$681.43
TOTAL	\$67,941.52	\$15,055.40	\$52,886.12	\$3702.03

For Avianca, Gonzalez indicated in his monthly reports that he provided services in the amount of \$168,291.30. The records obtained from Avianca reflect that Sereca was paid \$663,116.38. The unreported amount totals \$494,825.08. MDAD was defrauded by Gonzalez of fees of \$34,637.76 ($\$494,825.08 \times 7\%$).

TABLE 7 – Avianca Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
JANUARY	\$46,858.40	\$12,220.31	\$34,638.09	\$2,424.67
FEBRUARY	\$43,892.19	\$19,859.47	\$24,032.72	\$1,682.29
MARCH	\$32,452.67	\$8,045.33	\$24,407.34	\$1,708.51
APRIL	\$41,984.12	\$8,588.19	\$33,395.93	\$2,337.72
MAY	\$36,864.02	\$8,967.03	\$27,896.99	\$1,952.79
JUNE	\$55,704.15	\$16,792.99	\$38,911.16	\$2,723.78
JULY	\$86,167.05	\$16,215.64	\$69,951.41	\$4,896.60
AUGUST	\$58,644.99	\$13,423.20	\$45,221.79	\$3,165.53
SEPTEMBER	\$66,084.90	\$13,473.98	\$52,610.92	\$3,682.76
OCTOBER	\$60,260.21	\$15,266.76	\$44,993.45	\$3,149.54
NOVEMBER	\$60,386.52	\$15,990.08	\$44,396.44	\$3,107.75
DECEMBER	\$73,817.16	\$19,448.32	\$54,368.84	\$3,805.82
TOTAL	\$663,116.38	\$168,291.30	\$494,825.08	\$34,637.76

In the case of LAN Chile, Gonzalez indicated in his monthly reports that he provided services in the amount of \$588,300.68. The records obtained from LAN Chile reflect that Sereca was paid

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\$2,072,933.78. The unreported amount totals \$1,484,633.10. MDAD was defrauded by Gonzalez of fees of \$103,924.32 ($\$1,484,633.10 \times 7\%$). The OIG was not able to identify how Sereca determined the amount of revenue it reported to MDAD from LAN Chile.

TABLE 8 – LAN Chile Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
FEBRUARY	\$37,852.11	\$0.00	\$37,852.11	\$2,649.65
MARCH	\$187,423.64	\$61,759.18	\$125,664.46	\$8,796.51
APRIL	\$173,260.33	\$61,987.96	\$111,272.37	\$7,789.07
MAY	\$235,934.64	\$60,708.37	\$175,226.27	\$12,265.84
JUNE	\$176,707.84	\$54,026.53	\$122,681.31	\$8,587.69
JULY	\$123,105.38	\$69,942.38	\$53,163.00	\$3,721.41
AUGUST	\$233,505.90	\$70,481.41	\$163,024.49	\$11,411.71
SEPTEMBER	\$244,091.29	\$59,684.62	\$184,406.67	\$12,908.47
OCTOBER	\$241,020.69	\$49,523.57	\$191,497.12	\$13,404.80
NOVEMBER	\$210,035.74	\$38,000.57	\$172,035.17	\$12,042.46
DECEMBER	\$209,996.22	\$62,186.09	\$147,810.13	\$10,346.71
TOTAL	\$2,072,933.78	\$588,300.68	\$1,484,633.10	\$103,924.32

In addition to the above-mentioned MIA tenants that Sereca named in its monthly reports, the OIG investigation revealed that Sereca also provided security services to Florida West International Airline (Florida West) and LACSA Airline.

Sereca did not identify Florida West as a client and did not report any revenue to MDAD. The actual records obtained from Florida West reflect that Sereca was paid \$107,059.93. MDAD was defrauded by Gonzalez of fees of \$7,494.19 ($\$107,059.93 \times .07$).

TABLE 9 – Florida West Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
MARCH	\$7,235.94	\$0.00	\$7,235.94	\$506.52
APRIL	\$9,647.91	\$0.00	\$9,647.91	\$675.35
MAY	\$12,059.90	\$0.00	\$12,059.90	\$844.19
JUNE	\$9,820.20	\$0.00	\$9,820.20	\$687.41
JULY	\$9,647.92	\$0.00	\$9,647.92	\$675.35
AUGUST	\$7,340.94	\$0.00	\$7,340.94	\$513.87
SEPTEMBER	\$17,331.32	\$0.00	\$17,331.32	\$1,213.19
OCTOBER	10,378.20	\$0.00	10,378.20	\$726.47
NOVEMBER	\$7,803.93	\$0.00	\$7,803.93	\$546.28
DECEMBER	\$15,793.67	\$0.00	\$15,793.67	\$1,105.56
TOTAL	\$107,059.93	\$0.00	\$107,059.93	\$7,494.19

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Sereca also did not identify LACSA Airlines as a client and did not report any revenue to MDAD. The actual records obtained from LACSA reflect that Sereca was paid \$8,868.16. MDAD was defrauded by Gonzalez of fees of \$620.77 (\$8,868.16 x .07).

TABLE 10 – LACSA Additional Fees Due for 2005

MONTH	RECEIVED	REPORTED	UNDER REPORTED	ADDITIONAL FEE DUE
NOVEMBER	\$3,800.64	\$0.00	\$3,800.64	\$266.04
DECEMBER	\$5,067.52	\$0.00	\$5,067.52	\$354.73
TOTAL	\$8,868.16	\$0.00	\$8,868.16	\$620.77

OIG Interviews with Jose Gonzalez

Gonzalez was interviewed on two occasions, once at his office and again at the State Attorneys office with his attorney present. Gonzalez stated that he computes the gross revenue he reports to MDAD based on the checks he receives from his customers. When the customer pays him, he includes it in that month's revenue report. He does not report his revenue based on the date of the invoices he submits to the customer because some of his customers are very slow in paying him.

Gonzalez stated that he reviews all the invoices and calculates the fee based on where the service was performed – whether it was on or off MDAD property. Gonzalez believed he had to pay the fee on the gross revenue of all the services he provided at MDAD depending on whether the guard was on airport property or off airport property (i.e., if the guard was off property then it was not included in the fee calculation). Depending on where the service was provided, he decided if the fee was applicable. He stated that Sereca also does investigations, background checks and off site assignments, such as in Venezuela, that are not subject to the fee. If the service were performed off the airport, it was not subject to the fee.

Gonzalez mentioned TACA and Avianca as two airlines he provided services for, and he stated that 80 to 100 percent of their services would be subject to the fee. However, these percentages are contradictory to what Sereca reported to MDAD for these two airlines. For TACA he reported that only 21% of their services were subject to the fee, and for Avianca he only reported 25%.

For the cargo airlines that Gonzalez provided services to, such as LAN Chile, he stated that only 50 to 60 percent of the services were subject to the fee, as the services would be provided in their warehouse which is off MDAD property. Again, this is not corroborated by the analysis of Sereca's billings. For LAN Chile, Gonzalez reported that only 28% of services were subject to

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the fee, for Strategic Air he reported 22%, for Arrow Cargo he reported 24%, and for AmeriJet he reported 26% – significantly less than what he stated he was reporting.

According to Gonzalez, he prepared his billings based on what was told to him by Phillip Davis, a MDAD employee (now retired) who had overseen the permitting section. Gonzalez stated that Davis told him security guards who did not require MDAD badges and who worked at cargo warehouses were “not on airport property” and therefore not subject to the 7% fee. Davis was interviewed by the OIG and he could not recall this conversation with Gonzalez; however, he could not state that it did not occur. Davis did state that the cargo warehouses are on airport property and were subject to the 7% fee. Even if the conversation took place as described by Gonzalez, Gonzalez did not compute his actual monthly revenue under this premise.

Sereca's reported revenue to MDAD does not conform to his stated billing method. In fact, Gonzalez arbitrarily chose randomly selected invoices or checks, usually every third or fourth invoice, and only reported these on his monthly revenue reports to MDAD. In addition, several of the tenants that Sereca provided services to, such as Avianca, TACA, LAN Chile, and Strategic Air, have told the OIG that all of Sereca's guards had MDAD I.D. badges. And in the case of Florida West and LACSA, Gonzalez failed to disclose that he did any business with them whatsoever.

Sereca, via its attorney and pursuant to a subpoena, supplied what they claimed was a correct breakdown of which invoices were subject to the seven percent fee. This breakdown was analyzed and it still fails to accurately reflect the business that Sereca did for MDAD tenants – as substantial understatements of gross revenue still existed for each customer.

CONCLUSION

The OIG believes Sereca Security has substantially under-reported its actual gross revenue earned from its operations at MDAD. The investigation revealed that on a monthly basis Sereca only reported approximately 26 percent of its true gross revenue. This unreported revenue totaled \$2,987,354.46, resulting in the failure of Sereca to pay over \$209,114.81 in additional permit fees due to MDAD.

Sereca employed a scheme whereby it periodically reported just one invoiced amount or check payment received per month on its revenue report. In fact, they issued invoices to its customers on a weekly basis. This scheme evidences that Jose Manuel Gonzalez purposely did not report over 73 percent of Sereca's revenue to MDAD. When interviewed about the understatement, Gonzalez concocted a story concerning how he computed his revenue and paid his fees. When confronted with the magnitude of the scheme and the systematic under-reporting of approximately three-fourths of his total revenue, Gonzalez was unable to explain it. It is clear that the income Sereca Security earned was generated from its security business conducted on the premises of MDAD, which included the terminal and cargo areas. It is also clear that this revenue is subject to the seven percent permit fee.

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This report was furnished to the subject company, Sereca, on November 8, 2006, for its review and comment. The OIG has not received any comments or a response back from Sereca.

RECOMMENDATIONS & PROSPECTIVE ACTIONS

This investigative report pertains only to Sereca and only concerned the year 2005. Sereca Security has been operating at MDAD since 2002. It is highly recommended that MDAD review the earlier years and 2006 to determine how much Sereca owes in additional fees for those time periods.

To the OIG's understanding, Sereca is still providing services to the airport under its permit. We believe that the Aviation Department should assess the responsibility of this contractor/permittee vis-à-vis its clients to ensure that airport tenants are provided the services that they are in fact paying for. As importantly, the Aviation Department must assess Sereca's payment responsibility to the County, and take appropriate contractual and administrative action to protect the County from un-responsible contractors who shortchange the County what it is owed.

A copy of this report is being furnished to the State Attorney's Office for a prosecutive determination.