August 8, 2014

Honorable Members of the City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Audit of Grove Harbour Marina for the period January 1, 2009 through December 31, 2013
Audit No. 14-007

Executive Summary

We have completed an audit of records and selected financial transactions of Grove Harbour Marina (GHM), primarily for the period January 1, 2009 through December 31, 2013. The audit was performed to determine whether GHM complied with the applicable sections of its Lease and Development Agreement (Lease) with the City of Miami (City). During the most recent lease years (2012 and 2013), GHM made minimum rent payments totaling $624,167 and $642,000, respectively, while reporting total gross revenue of approximately $5 million (2013). Another objective of the audit was to determine whether GHM realized the full income potential of the marina. During 2013, GHM reported “wet” slip (boats moored in the water) and “dry” slip (boats stored on dry land in racks) revenues totaling $2.6 million.

Overall, we concluded that except for certain controls over rental payments that required strengthening, procedures and compliance with the Lease were generally adequate and being adhered to. We noted that improvement is needed to ensure that GHM makes rental payments in a timelier manner. **As a result of this deficiency, GHM owes the City late fees totaling $4,904.**

In addition, as a result of our analysis of the marina’s potential income, we noted that the occupancy rate of GHM’s dry slips could be improved. As indicated on page five of the report, GHM’s occupancy rates for its indoor and outdoor dry slips are 61% and 51% respectively, while the occupancy rates for comparable marinas range from 80% to 98%. Improved occupancy rates would increase percentage rent remittances to the City. Details of our findings and recommendations are included on pages three through five of the report.
We wish to express our appreciation for the cooperation and courtesies extended to us by the Grove Harbour Marina’s management and accounting staff as well as the City’s Public Facilities Department while conducting the audit.

Sincerely,

Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General

cc: The Honorable Mayor Tomas Regalado
    Daniel Alfonso, City Manager
    Victoria Mendez, City Attorney, City Attorney’s Office
    Alice Bravo, Deputy City Manager/Chief of Infrastructure
    Nzeribe Ihekwaba, Assistant City Manager/Chief of Operations
    Fernando Casamayor, Assistant City Manager/Chief Financial Officer
    Mark Burns, Interim Director, Public Facilities Department
    Jose Fernandez, Director, Finance Department
    Miguel Augustin, Controller, Finance Department
    Demetrio Constantiny, Accounts Receivable Supervisor, Finance Department
    Alan Lima, Grove Harbour Marina
    Jay Leyva, Grove Harbour Marina
    Members of the Audit Advisory Committee
    Audit Documentation File

Audit conducted by: Lewis Blake, CPA, CIA, Audit Manager
                    Paulino Garcia, Staff Auditor

Audit reviewed by: Munirah Daniel, Senior Staff Auditor
AUDIT OF GROVE HARBOUR MARINA
JANUARY 1, 2009 THROUGH DECEMBER 31, 2013

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was to determine Grove Harbour Marina’s (GHM) compliance with the rental payment, insurance, and maintenance provisions of its Lease and Development Agreement (Lease) with the City of Miami (City). The audit primarily covered the period January 1, 2009 through December 31, 2013 and focused on the following objectives:

- To determine whether GHM complied with the terms of the Lease to the extent that their rental payments to the City were consistent with: gross revenues periodically reported to the City; sales and use tax returns reported to the State of Florida; federal tax returns; and, bank deposits.
- To determine whether GHM rental payments were remitted in a timely manner.
- To determine whether insurance policies were adequate and in compliance with rental agreement terms.
- To determine whether remitted rental payments were properly recorded in the City’s accounting system and deposited into the City’s treasury.
- To determine whether adequate internal controls were maintained.
- To determine whether GHM is realizing the full income potential of the marina.
- Other audit procedures as deemed necessary.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence in order to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit methodology included the following:

- Interviews and inquiries of appropriate personnel.
- Reviews of written policies and procedures in order to gain an understanding of the internal controls.
- Observations of current practices and processing techniques.
- Tests of applicable transactions and records.
- Other audit procedures as deemed necessary.
BACKGROUND

The City of Miami (City) owns a 13.55 acre waterfront site in Coconut Grove at Dinner Key, consisting of 6.95 upland (dry land) acres and 6.6 submerged acres. Subsequent to issuing a request for proposal (RFP) to develop the site, the City executed a Lease and Development Agreement (Lease), dated March 12, 1999, with Grove Harbour Marina and Caribbean Marketplace, LLC, a Florida limited liability company (GHM). Based on the December 4, 2002 commencement date of the Lease, Grove Harbour Marina (GHM) is in the 12th year of the forty (40) year Lease.

In accordance with the terms of the Lease, GHM developed the waterfront property into a full-service marina complex (known as “Grove Harbour Marina”). GHM provides “wet slips” (where vessels are moored in the water) and “dry slip” storage space (vessels are stored on dry land in racks) to boat-owners/customers for a stipulated rental rate. In addition, GHM generates revenue from boat repair and hauling, fuel sales, and upland sub-letting (retail and office space). Its largest sub-lessee is “Fresh Market” which is a natural foods grocery store that GHM features as part of its “full-service” amenities.

For the year ended December 31, 2013, “Total Gross Revenues” were $5.06 million. GHM offers both monthly and annual wet and dry slip rentals; however, dry slips are typically rented annually. It also offers weekly or monthly transient rental arrangements for vessels making Miami as a temporary port-of-call. The marina contains ninety (90) “wet slips” for vessels up to 110 feet and 260 “dry slip” spaces for vessels up to 46 feet. During 2013, GHM reported “Marina Revenue” generated from the rental of wet and dry slips totaling $2.6 million, including $221,689 in revenues from transient boat owners.
AUDIT FINDINGS AND RECOMMENDATIONS

CONCLUSION: Overall, we concluded that except for certain controls over rental payment collections that required strengthening, procedures and compliance with the Lease were generally adequate and being adhered to. We noted that improvement is needed to ensure that GHM makes rental payments in a timelier manner. **As a result of this deficiency, GHM owes the City late fees totaling $4,904.**

In addition, as a result of our analysis of the marina’s potential income, we noted that the occupancy rate of GHM’s “dry slips” could be improved and potentially lead to increased percentage rental payments to the City. GHM’s occupancy rates for its indoor and outdoor dry slips are 61% and 51% respectively, while the occupancy rates for comparable marinas range from 80% to 98%.

Details of our findings and recommendations follow:

**FINDING 1: RENTAL PAYMENTS WERE UNTIMELY RESULTING IN LATE FEES DUE TOTALING $4,904**

The Lease stipulates that GHM must pay the greater of “Minimum Annual Rent” (minimum rent) or “Percentage Rent”. Percentage Rent includes among other items, a percentage of “Gross Revenue” from the marina (i.e., “wet slips” including transients and dry storage), “Floor Rent” (which is another name for rent collected from GHM’s other “upland” sub-tenants), as well as the rent that GHM collects from the “Fresh Market” grocery store (FM), which is GHM’s largest sub-tenant. During the period audited, we noted that Minimum Annual Rent began as $550,000 (plus 7% sales tax) and increased, pursuant to an appraisal, to $600,000 (plus sales tax).

Rental payments are due on the first day of each month and any percentage rent due is based on “Gross Revenue” for the month beginning approximately sixty (60) days prior. For example, percentage rent that is due February 1st should be based on the gross revenue that was generated and reported by GHM for the month of December. Accordingly, along with its rental payment, the Lease requires GHM to submit a monthly report of its gross revenues for the month commencing approximately sixty (60) days prior, in order to support payment of the greater of minimum rent or percentage rent for the month. In the event GHM does not pay rent within fifteen (15) days after it becomes due (on the 1st of the month), GHM must pay a late fee equal to five percent (5%) of the unpaid amounts.

Late Rental Payments and Late Fees

Our testing disclosed that in light of the fifteen (15) day grace period stipulated in the lease, GHM made late rental payments (after the 15th of the month) for the months of January 2010 and August 2011. Evidence that the payments were late is shown by the dates indicated on GHM’s rental payment checks. The January 2010 and August 2011 rent checks were dated March 16, 2010 and October 17, 2011 respectively. The monthly rent due for the two (2) months was $49,042 or a total of $98,084 ($49,042 x 2 months). Consequently, the total 5% late fee due is $4,904.
RECOMMENDATION 1.1 (Grove Harbour Marina)

We recommend that Grove Harbour Marina (GHM) enhance its internal controls procedures to ensure that all rental payments to the City are timely and pay the $4,904 late payment fees.

- **GHM Response:**
  The $4,904 late payment was remitted on July 30, 2014.

- **Implementation Date:**
  Implemented

**FINDING 2:** IMPROVE “DRY SLIP” OCCUPANCY RATES TO MAXIMIZE PERCENTAGE RENT PAID TO THE CITY

Potential Gross Income Analysis Methodology

We obtained an appraisal report (required pursuant to the Lease) that included an inventory of GHM wet and dry slips, as well as rental rates applicable to the various boat lengths/sizes indicated in the inventory. We noted that the sum of the monthly rates applicable to the various boat lengths would determine the monthly potential gross income (PGI) for both wet and dry slips. However, since the appraisal report stated that some wet and dry slips are unusable, we noted that a "Use Adjustment" (indicated in linear feet—e.g., 259 feet for wet slips) used to calculate the annual PGI.

Accordingly, we calculated the annual PGI, net of use adjustment as follows: 

\[
(\text{Boat Length} \times \text{Rate for Slip} \times 365 \text{ days} ÷ 12 \text{ months}) \quad \text{–} \quad (\text{Use Adjustment Length} \times \text{Rate for Slip} \times 365 \text{ days} ÷ 12 \text{ months})
\]

The $Rate for wet slips is $1.06; for indoor dry slips it is $.93; and, for outdoor dry slips it is $.70.

Finally, we subtracted a 15% vacancy rate from the calculated annual PGI net of use adjustment in order to obtain a "Slip Revenue Less Vacancy" amount, or Effective Slip Income (ESI). We then compared the ESI with GHM's reported 2012 "Actual Wet & Dry Slip Income" and noted any numeric and percentage differences. In addition, we also compared the ESI amount indicated in the appraisal report to the actual wet & dry slip income reported by GHM and noted any differences.

**Analysis Results**

We calculated the total wet and dry slip PGI, net of use adjustment, to be $3.7 million and we calculated an ESI of $3.16 million (See Schedule I—Total Wet & Dry Slip PGI & ESI Analysis on Page 6). When we compared the $3.16 million ESI to actual GHM 2012 reported wet and dry slip revenues of $2.29 million, we noted an $862,000 difference, or 27.3%. In addition, when we compared the $2.94 million ESI indicated in the appraisal report (i.e. $3.46 million PGI less a 15% vacancy rate) to the said GHM 2012 reported wet and dry slip revenues; we noted a $646,000 difference, or 22%.
We noted that such differences are largely attributed to indoor and outdoor dry slips since the calculated ESI for such slips was $2.23 million and actual/reported dry slip income was $1.37 million, or a 38.5% difference (See Schedule I—Dry Slip PGI & ESI Analysis). It should be noted that the appraisal report corroborates this observation by stating that GHM's occupancy rates for indoor and outdoor dry slips are 61% and 51% respectively while the occupancy rates for comparable sites range from 80% to 98%. Therefore, we conclude that due to its below-market dry slip occupancy rates, GHM's dry slips are not realizing their full income potential.

RECOMMENDATION 2:

In order to maximize percentage rent paid to the city, we recommend that GHM take steps to increase its dry slip occupancy rates.

- GHM Response:
  See Schedule II attached.
SCHEDULE I
Grove Harbour Marina Potential Gross Income & Effective Dry Slip Income for the Period
January 1, 2012 through December 31, 2012

Potential Gross Income (PGI) = Slip Length(Net of Use Adjustment) x Slip Rate x Time Period

Effective Slip Income (ESI) = Slip Revenue Less 15% Vacancy Rate

<table>
<thead>
<tr>
<th>Wet Slip PGI &amp; ESI Analysis</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total &quot;Adjusted&quot; Wet Slip Inventory Length</td>
<td>2,806</td>
<td></td>
</tr>
<tr>
<td>Wet Slip Rate</td>
<td>$1.06</td>
<td></td>
</tr>
<tr>
<td>Total Annual Wet Slips PGI</td>
<td>$ 1,085,641</td>
<td></td>
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<tr>
<td>Total Annual Wet Slips ESI</td>
<td>$ 922,795</td>
<td></td>
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<tr>
<td>Actual Wet Slip Income Reported 2012</td>
<td>$ 920,543</td>
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<tr>
<td>Difference</td>
<td>$ 2,252</td>
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<tr>
<td>Percentage Difference</td>
<td>0.24%</td>
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<table>
<thead>
<tr>
<th>Dry Slip PGI &amp; ESI Analysis</th>
<th>(Indoor)</th>
<th>(Outdoor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total &quot;Adjusted&quot; Dry Slip Inventory Length</td>
<td>2,766</td>
<td>6,609</td>
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<tr>
<td>Dry Slip Rate</td>
<td>$0.93</td>
<td>$0.70</td>
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<tr>
<td>Annual Dry Slips PGI</td>
<td>$ 938,919</td>
<td>$ 1,688,600</td>
</tr>
<tr>
<td>Total Annual Dry Slips (Indoor &amp; Outdoor) PGI</td>
<td>$ 2,627,518</td>
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</tr>
<tr>
<td>Total Annual Dry Slips ESI</td>
<td>$ 2,233,390</td>
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<tr>
<td>Actual Dry Slip Income Reported 2012</td>
<td>$ 1,373,731</td>
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<tr>
<td>Difference</td>
<td>$ 859,659</td>
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<tr>
<td>Percentage Difference</td>
<td>38.49%</td>
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<table>
<thead>
<tr>
<th>Total Wet &amp; Dry Slip PGI &amp; ESI Analysis</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Wet &amp; Dry Slips PGI</td>
<td>$ 3,713,160</td>
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</tr>
<tr>
<td>Total Wet &amp; Dry Slips ESI</td>
<td>$ 3,156,186</td>
<td></td>
</tr>
<tr>
<td>Actual Wet &amp; Dry Slip Income Reported 2012</td>
<td>$ 2,294,274</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>$ 861,911</td>
<td></td>
</tr>
<tr>
<td>Percentage Difference</td>
<td>27.31%</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>ESI Per Appraisal Report</th>
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<tbody>
<tr>
<td>Actual Wet &amp; Dry Slip Income Reported 2012</td>
<td>$ 2,940,415</td>
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<tr>
<td>Difference</td>
<td>$ 646,141</td>
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</tr>
<tr>
<td>Percentage Difference</td>
<td>21.97%</td>
<td></td>
</tr>
</tbody>
</table>
July 25, 2014

Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General
444 SW 2nd Avenue
Suite 711
Miami, Florida 33130-1910

Re: Audit of Grove Harbour Marina for the Period January 1, 2009 through December 31, 2013
Audit No. 14-007

Dear Mr. Guba:

We are in receipt of your draft audit report for the five-year period of January 1, 2009 through December 31, 2013. I would like to address specifically the two findings with the recommendations you detail in your report.

FINDING 1: RENT PAYMENTS WERE UNTIMELY RESULTING IN LATE FEES DUE TOTALING $4,904.

After reviewing your findings and conducting our own internal investigation, we concur that it does seem that 2 checks from the 60-month period were, respectively, 1 day late (delivered on March 16, 2010) and 2 days late (delivered on October 17, 2011). As to the check dated March 16, 2010, we have not been able to determine the reason why the check was delivered one day late. Given that this occurred over four years ago, it has been a challenge to find the cause. However, as to the second check dated October 17, 2011, the accounting department sent the check on October 17th because the 15th of October 2011 was a Saturday. We believe that, as a result, this check should not be considered late.

RECOMMENDATION 1.1 (FINANCE RAPRTMENT) We recommend that the City’s Finance Department (FD) send a collection notice to GHM requiring payment of 5% late fees totaling $4,904 for the months of January 2010 and August 2011 as described herein.

Notwithstanding our belief that the second check was timely delivered, we have enclosed a check for $4,904 for the payments made on March 16, 2010 and October 17, 2011 that were one day late and two days late respectively.
RECOMMENDATION 1.2 (GROVE HARBOUR MARINA) We recommend that Grove Harbour Marina (GHM) enhance its internal controls procedure so as to ensure that all rent payments to the City are timely.

As stated earlier, we do not know why the payment done over four years ago on March 16, 2010 was one day late. As to the October 17, 2011 payment, we have clarified to our staff that any rent payments that may become due on a weekend or legal holiday should be paid on the work day before the weekend or legal holiday so as to avoid any future confusion regarding the payment deadline. We pride ourselves at GHM in making sure our payments to the City are done on a timely basis and will continue to do so.

FINDING 2: IMPROVE "DRY" SLIP OCCUPANCY RATES TO MAXIMIZE PRECENTAGE RENT PAID TO THE CITY

Even though we disagree with some of your numbers and assumptions, we are always striving to maximize revenue on the dry slip marina.

In particular, I want to bring to your attention that the auditor compared our marina slip rates to the highest marina slip rates in the marketplace. The following table compares the audit rate, marketplace comparables, and the rates used by the appraiser:

<table>
<thead>
<tr>
<th>Company</th>
<th>Outside Racks</th>
<th>Indoor Racks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Rate</td>
<td>$21.29</td>
<td>$28.29</td>
</tr>
<tr>
<td>Comp 1</td>
<td>$13.50-$20.00</td>
<td>$22.00-$25.00</td>
</tr>
<tr>
<td>Comp 2</td>
<td>$14.15</td>
<td>$15.90</td>
</tr>
<tr>
<td>Comp 3</td>
<td>$13.60-$16.70</td>
<td>$15.40-$19.05</td>
</tr>
<tr>
<td>Comp 4</td>
<td>$12.15-$12.20</td>
<td>$12.15-$12.20</td>
</tr>
<tr>
<td>Comp 5</td>
<td>$13.50</td>
<td>N/A</td>
</tr>
<tr>
<td>Appraisal Used</td>
<td>$20.00</td>
<td>$26.00</td>
</tr>
</tbody>
</table>

As you can see, the appraiser used the highest rate in the market to do their analysis. At the time of the appraisal, we indicated our disagreement with using the highest market rates to compare the rates charged by GHM. To our surprise, in the audit report, the rates used were even higher than the appraisal. We, again, do not believe that these rates, which are higher than the most expensive comparable in the marketplace, should be used for comparison. We have every incentive to charge the right price for slip rentals, but occupancy is greatly impacted by price. The higher rate we charge, the less probability we will have to lease a space. As business people, we strive to find the proper balance between price and occupancy in order to maximize profit. We believe that we have found the proper balance.

As is obvious by the table above, the appraisal compares GHM to the highest rate in the market, as set forth in the comparables provided by the appraiser. We feel it is
inappropriate to compare GHM to an even higher rate in the audit analysis. To impose such higher rates on the public, will only drive up vacancies because it is not a realistic rent based on current market conditions.

RECOMMENDATION 2: In order to maximize percentage rent paid to the city, we recommend that GHM take steps to increase its dry slip occupancy rates.

After we received the appraisal, we experimented by dropping our rates to be more in line with the market comparables. We did so to determine if lowering rates would increase occupancy. The result: we did decrease our vacancy rate, but the change did not translate into increased revenues. In the last quarter of 2013, we instead implemented an increase in rates on new tenants and saw a jump in revenue of over 8% for the fourth quarter 2013 as it compares to the fourth quarter 2012. This, however, did result in an increase in vacancy. As prudent business people, we will continue to experiment with various pricing strategies in an effort to increase our gross revenue on the dry slips. We will continue to be vigilant to find opportunities to increase revenue in this business unit.

We are happy that this very long audit process is coming to an end. If you have any questions please feel free to contact me any time.

Sincerely,

Jay Leyva