

City of Miami

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INDEPENDENT AUDITOR GENERAL



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August 5, 2014

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

Re: Audit of Rickenbacker Marina for the period January 1, 2009 through December 31, 2013
Audit No. 14-013

Executive Summary

We have completed an audit of records and selected financial transactions of Rickenbacker Marina, Inc. (RMI), primarily for the period January 1, 2009 through December 31, 2013. The audit was performed to determine whether RMI complied with the applicable sections of its Property Lease Agreement (Lease) with the City of Miami (City). During the most recent lease years (2012 and 2013), RMI made minimum rent payments totaling \$692,048 and \$814,561 respectively, while reporting total gross revenue of approximately \$6.2 million (2012) and \$8 million (2013).

Overall, we concluded that except for certain controls over gross revenue reporting that require strengthening, procedures and compliance with the Lease were generally adequate and being adhered to. Improvement is needed to ensure that RMI's gross revenue, which is the basis for the percentage rent they are obligated to pay, is reported accurately. **As a result of this deficiency, RMI owes the City \$7,598 in additional rent (See Schedule 1, page 5).**

We wish to express our appreciation for the cooperation and courtesies extended to us by the Rickenbacker Marina's management and accounting staff as well as the City's Public Facilities Department while conducting the audit.

Sincerely,

A handwritten signature in cursive script that reads "Theodore P. Guba".

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
Alice Bravo, Deputy City Manager/Chief of Infrastructure
Nzeribe Ihekwebaba, Assistant City Manager/Chief of Operations
Fernando Casamayor, Assistant City Manager/Chief Financial Officer
Mark Burns, Interim Director, Department of Public Facilities
Aldo Bustamante, Assistant Director, Department of Public Facilities
Jose Fernandez, Director, Finance Department
Christopher Rose, Director, Office of Management and Budget
Demetrio Constantiny, Accounts Receivable Supervisor, Finance Department
Aabad R. Melwani, President, Rickenbacker Marina, Inc.
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: Marcus Cabral, CPA, CISA, Senior Auditor

**AUDIT OF RICKENBACKER MARINA
JANUARY 1, 2009 THROUGH DECEMBER 31, 2013**

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was to determine Rickenbacker Marina's, Inc. (RMI) compliance with the rental payment, insurance, and maintenance provisions of its Property Lease 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 RMI complied with the terms of the Lease to the extent that its rent 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 RMI rent payments were remitted in a timely manner.
- To determine whether insurance policies were adequate and in compliance with rental agreement terms.
- To determine whether rent 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.
- 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 twenty-one (21) acre waterfront site on Rickenbacker Causeway, which is part of the City's Miami Marine Stadium complex. Subsequent to issuing a request for proposal (RFP) to develop and lease the site, the City executed a Property Lease Agreement (Lease), dated July 8, 1977, with Marina Biscayne, Inc. However, in 1986, the Lease, which terminates on July 7, 2016, was assigned to Rickenbacker Marina, Inc. (RMI).

In accordance with the terms of the Lease, RMI developed a portion of the Marine Stadium complex into a full-service marina complex (known as "Rickenbacker Marina"). In addition to renting "wet slips" (including moorings) where vessels are docked in the water, and "dry slips" (including Jet Ski storage space) where vessels are stored on dry land in racks, RMI also provides other marina-related services that require payment of separate fees. As such, RMI also generates revenue from boat maintenance, parts and service, fuel sales, and a marine retail/convenience store. Its only sub-lessee is "Whiskey Joe's Restaurant".

For the year ended December 31, 2013, "Total Gross Revenues" were \$8.04 million and RMI paid the City percentage rent totaling \$814,561.

AUDIT FINDINGS AND RECOMMENDATIONS

CONCLUSION: Overall, we have concluded that except for certain controls over gross revenue reporting that require strengthening, procedures and compliance with the Lease were generally adequate and being adhered to. Specifically, rent payments were properly recorded, and insurance policies were in compliance with lease requirements. However, we noted that improvement is needed to ensure that RMI's gross revenue, which is the basis of the percentage rent it is obligated to pay, is reported accurately. **As a result of this deficiency, RMI owes the City \$7,598 in additional rent.**

Details of our findings and recommendations follow:

FINDING 1: UNDERSTATED GROSS REVENUES REPORTED TO THE CITY RESULTED IN UNDERPAYMENTS OF PERCENTAGE RENT TOTALING \$7,598

The Lease stipulates that RMI must pay the greater of "Minimum Annual Rent" or "Percentage Rent". Percentage Rent, includes, among other items, a percentage of "Gross Revenue" generated from the marina (i.e., "wet slips" including transients and users of the mooring field), dry storage, the fuel dock facility, and Whiskey Joe's Restaurant (RMI's only sub-tenant). During the period audited, we noted that Minimum Annual Rent was \$360,000 (or \$30,000 monthly).

Minimum Annual Rent payments are payable "in advance" on first day of each month, while any additional percentage rent is payable monthly "in arrears" on the 30th day of each month. Accordingly, along with its \$30,000 minimum rent for the month, the Lease requires RMI to submit a monthly report of its gross revenues for the preceding month and any applicable percentage rent due.

However, when we converted the cash collected by RMI during 2011 and 2012, to gross revenue generated on an accrual basis (via making certain adjustments), we noted differences between accrual-based gross revenues and the gross revenues reported to the City. For 2011, the difference was \$17,148 (or .30%) based on \$5.72 million reported to the City. And, for 2012, the difference was \$49,818 (or .80%) based on approximately \$6.21 million reported to the City. (See Schedule 1, page 5).

Based on composite rental rates (i.e., calculated as a percentage of rents paid to the City and reported gross revenues) of 12.23% and 11.04% for 2011 and 2012, respectively, RMI owes the City \$2,097 and \$5,501 for 2011 and 2012, respectively, or a total of \$7,598 (See Schedule 1).

RECOMMENDATION 1.1 (Rickenbacker Marina/Finance Department)

We recommend that Rickenbacker Marina, Inc. (RMI) enhance its internal controls procedures so as to ensure that all “Monthly Gross Revenue Reports” and percentage rent payments to the City are accurate; Finance should bill RMI for the underpayments of \$7,598.

- **RMI Response:**
RMI agrees with the finding and has agreed to pay the \$7,598 described herein.
- **Finance Department Response:**
Finance will bill the \$7,598 due to the City.
- **Implementation Date:**
Immediately

SCHEDULE 1 - RECONCILIATION OF REVENUES - RICKENBACKER MARINA			
	Fiscal Year Ended	Fiscal Year Ended	
	<u>12/31/2012</u>	<u>12/31/2011</u>	
Bank Deposits	\$ 6,784,108.25	6,714,039.21	
Plus: Accounts Receivable Increase	29,202.00		
Less: Accounts Receivable Decrease		(29,163.00)	
Less: Contributions/Transfers of Capital from Members	(225,218.44)	(646,871.58)	(A)
Less: Sales & Use Tax included in rent collected	(332,731.23)	(299,548.09)	(B)
Reconciled Gross Revenue	\$ 6,255,360.58	\$ 5,738,456.54	
Gross Revenue Reported to the City	(6,205,542.80)	(5,721,308.89)	
Reporting Shortage	\$ 49,817.78	17,147.65	
Composite Rental Rates	11.04%	12.23%	
Amounts owed to City using composite rental rate	\$ 5,501.17	\$ 2,096.66	
	TOTAL DUE	\$7,597.83	
(A) =	Contributions/Transfers from Members are not revenue		
(B) =	SU taxes included in collected (deposited) rent payments are not revenue since they are remitted to the State subsequent to collection.		