

# City of Miami

THEODORE P. GUBA, CPA, CIA, CFE  
INDEPENDENT AUDITOR GENERAL



Telephone (305) 416-2044  
E-Mail: tguba@miamigov.com

April 1, 2021

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

Re: Audit of Miami Yacht Club  
Report No. 21-07

## **Executive Summary**

We have completed an audit of records and selected financial transactions of the Miami Yacht Club (MYC), primarily for the period December 1, 2014 through November 30, 2019. The audit was performed to determine whether the MYC complied with the applicable sections of its Property Lease Agreement (Lease) with the City of Miami (City). During the lease years 2015 through 2019, the MYC made base rent payments totaling \$301,036, in addition to percentage rent payments totaling \$319,869. During the most recent lease years (2018 and 2019), the MYC made percentage rent payments totaling \$69,759 and \$75,976 respectively, while reporting total gross revenue of approximately \$1.1 million and \$1.2 million, respectively.

Overall, we concluded that except for certain controls over gross revenue reporting and insurance coverage which require strengthening, the MYC established procedures that were generally adequate to ensure compliance with the Lease. Improvement is needed to ensure that gross revenue, which is the basis for the percentage rent, is reported timely and accurately. Additionally, the MYC's internal controls need to be enhanced to ensure that the City is named as the loss payee on the property insurance policy. **Due to deficiencies over gross revenue reporting, the MYC owes the City \$46,614 in additional rent and late fees (\$43,955 in additional rent and \$2,659 in late fees over the audit period).**

We wish to express our appreciation for the cooperation and courtesies extended to us by the Miami Yacht Club's management and accounting staff as well as the City's Department of Real Estate and Asset Management while conducting the audit.

Sincerely,



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

cc: The Honorable Mayor Francis Suarez  
Arthur Noriega, City Manager  
Victoria Mendez, City Attorney  
Todd Hannon, City Clerk  
Fernando Casamayor, Assistant City Manager/Chief Financial Officer  
Nzeribe Ihekweba, Assistant City Manager/Chief of Operations  
Natasha Colebrook-Williams, Assistant City Manager  
Mark Burns, Lease Manager, DREAM (Department of Real Estate and Asset Management)  
Erica T. Paschal, Director, Finance Department  
Michel Leon, Assistant Director, Office of Management and Budget  
Ann-Marie Sharpe, Director, Risk Management Department  
Demetrio Constantiny, Accounts Receivable Supervisor, Finance Department  
Mark Ingraham, Commodore, Miami Yacht Club  
Emily Copeland, Secretary, Miami Yacht Club  
Mike Fox, Treasurer, Miami Yacht Club  
Tim McDougall, Rear Commodore, Miami Yacht Club  
Members of the Audit Advisory Committee  
Audit Documentation File

Audit conducted by: Wesley Laurent, MBA, CPA, CIA, Senior Auditor

Audit reviewed by: Mala Khilnani, CPA, CISA, Assistant to the Auditor General

**AUDIT OF MIAMI YACHT CLUB**

**DECEMBER 1, 2014 THROUGH NOVEMBER 19, 2019**

**REPORT NO. 21-07**

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## **SCOPE, OBJECTIVES AND METHODOLOGY**

The scope of the audit was to determine if the Miami Yacht Club (MYC) was in compliance with the rental payment, insurance and other provisions of its Property Lease Agreement (Lease) with the City of Miami (City). The audit primarily covered the period December 1, 2014 through November 30, 2019 and focused on the following objectives:

- To determine whether the MYC accurately reported Gross Revenue to the City for the period December 1, 2014 through November 30, 2019. Gross Revenue is the basis for percentage rent payments made to the City.
- To determine whether the MYC rent payments were remitted in a timely manner.
- To determine whether insurance policies were adequate and in compliance with the Lease.
- 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 to ensure compliance with the Lease.
- 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, appropriate evidence 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**

Resolution No. 97-535 adopted by the City Commission (Commission) on February 24, 1997 authorized the City Manager to execute a Property Lease Agreement (Lease), dated December 2, 1997, with the Miami Yacht Club (MYC), a not-for-profit corporation. The MYC operates a sailboat facility at Watson Island providing marine recreational services to the community. The lessee is also permitted to conduct community services including youth sailing instruction, promoting amateur sailing regattas, and providing boat instruction and safety. The term of the Lease is for eighteen (18) years and four months with two (2) five (5) year renewal option periods.

The MYC generates fee revenue from membership dues, initiation fees, dockage fees, clubhouse rental fees, and from the onsite restaurant. Dockage revenue is earned from “wet slips” (where vessels are moored in the water) and “dry slips” (where vessels are stored on dry land in racks) from members and transient guests. Additionally, revenue is generated from the sale of food and beverages at their onsite restaurant which is open to the general public.

For the year ended November 31, 2019, “Total Gross Revenues” were \$1.2 million and the MYC paid the City minimum guaranteed and percentage rent totaling \$138,884.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

**CONCLUSION:** Overall, we concluded that except for certain controls over gross revenue reporting and insurance coverage which require strengthening, the MYC established procedures that were generally adequate to ensure compliance with the Lease. Improvement is needed to ensure that gross revenue, which is the basis for the percentage rent, is reported timely and accurately. Additionally, the MYC's internal controls need to be enhanced to ensure that the City is named as the loss payee on the property insurance policy. **Due to deficiencies over gross revenue reporting, the MYC owes the City \$46,614 in additional rent and late fees (\$43,955 in additional rent and \$2,659 in late fees over the audit period).**

Details of our findings and recommendations follow:

### **FINDING 1: UNDERSTATED GROSS REVENUES REPORTED TO THE CITY RESULTED IN UNDERPAYMENTS OF PERCENTAGE RENT TOTALING \$36,223.**

The Lease states that, "in addition to the payment of Minimum Guarantee, commencing thirty days after the expiration of the first calendar month after the Lease Date and thereafter within thirty days after the expiration of each every calendar month of the Lease Term, Lessee shall pay to Lessor, without any prior demand and without deduction or setoff whatsoever, an amount equal to nine percent (9%) of annual Gross Revenues in excess of three hundred eighty thousand dollars (\$380,000) (the "percentage rent")."

To determine whether the MYC paid the correct amount of percentage rent during lease years 2015 through 2019, we performed reconciliations of gross revenues reported to the City to all cash deposited into the MYC's bank accounts. Accordingly, we obtained all bank deposits and adjusted for various items that should be excluded from Gross Receipts, including sales and use taxes collected, service charges (tips/gratuities), and other non-revenue items per the Lease. After applying these adjustments to obtain reconciled Gross Revenue subject to percentage rent, we determined that the MYC owes the City \$36,223 in additional rent and Florida sales tax. (See Schedule I, Page 4).

SCHEDULE 1- RECONCILIATION OF GROSS REVENUES						
	2015	2016	2017	2018	2019	Total
Bank Deposits:	\$ 1,204,203	\$ 1,356,761	\$ 1,341,481	\$ 1,303,992	\$ 1,356,264	\$ 6,562,702
Not Subject to % Rent/Breakpoint	(380,000)	(380,000)	(380,000)	(380,000)	(380,000)	\$ (1,900,000)
Less: FL Sales Tax collected	(65,160)	(77,794)	(76,307)	(72,698)	(78,524)	\$ (370,484)
Less: Bank Transfers	(20,510)	(34,248)	(43,744)	-	(35)	\$ (98,536)
Less: Reimb Utilities-YSF	-	(6,300)	(3,500)	(5,600)	(7,000)	\$ (22,400)
Less: Service Charges (Tips/Gratuities)	(79,353)	(77,585)	(78,013)	(76,534)	(85,280)	\$ (396,765)
Less: Misc Refund	-	-	-	(5,000)	(1,399)	(6,399)
Plus: Incr (Decr) A/R	3,810	26,211	4,644	(37,415)	16,955	14,206
<b>Reconciled Gross Revenue</b>						
<b>Subject to Percentage Rent</b>	<b>\$ 662,990</b>	<b>\$ 807,045</b>	<b>\$ 764,561</b>	<b>\$ 726,745</b>	<b>\$ 820,981</b>	<b>\$ 3,782,324</b>
Percentage Rent - 9%	59,669	72,634	68,810	65,407	73,888	340,409
FL Use Tax (6.8% to 7%)	4,177	5,084	4,682	4,448	5,024	23,415
Percentage Rent Due to City	\$ 63,846	\$ 77,718	\$ 73,492	\$ 69,855	\$ 78,912	\$ 363,824
Percentage Rent Paid to City	53,177	55,930	65,027	69,759	75,976	319,869
Percentage owed before adjustment	<b>\$ 10,669</b>	<b>\$ 21,788</b>	<b>\$ 8,465</b>	<b>\$ 96</b>	<b>\$ 2,937</b>	<b>\$ 43,955</b>
Rent Adjustment -Charged in Finding 2	-	-	-	-	-	(7,732)
<b>Amount owed to City (Adjusted)</b>						<b>\$ 36,223</b>

### **RECOMMENDATION 1.1: Miami Yacht Club, Inc.**

We recommend that the MYC enhance its internal controls procedures to ensure that all “Monthly Gross Revenue Statements” and percentage rent payments to the City are accurately calculated and consistent with the Lease. We recommend that the MYC remit the additional percentage rent of \$36,223 to the City.

- **Auditee Response:** The MYC has created a template to capture and calculate all “Monthly Gross Revenue”. The template will be reviewed monthly and updated, as necessary. The MYC agrees to remit the additional percentage rent of \$36,223 to the City.
- **Implementation Date:** The template is effective immediately. The MYC will remit the \$36,223 to the City once a formal request for payment has been received.

### **RECOMMENDATION 1.2: FINANCE DEPARTMENT**

We recommend that the City’s Finance Department bill and collect the percentage rent due to the City from the MYC in the amount of \$36,223 (\$33,867 rent and \$2,356 tax).

- **Auditee Response:** The Finance Department will bill the MYC and collect \$36,223 due to the City.
- **Implementation Date:** Immediately.

### **FINDING 2: RENTAL PAYMENTS WERE INACCURATE AND UNTIMELY RESULTING IN ADDITIONAL RENT AND LATE FEES OF \$10,391**

The Lease states that, the Miami Yacht Club (MYC) shall pay the base rent (the “Minimum Guarantee”), in advance, to the Lessor on the first day of each month. In addition, Lessee shall pay Lessor the percentage rent within thirty (30) days after the end of each calendar month.

Furthermore the lease states “Any payment made by the Lessee for any rental, fee or charge as required to be paid under the provisions of the Lease, which is not received by Lessor within five (5) days after same shall become due, shall be subject to interest at the prime interest rate, or such other rate as specified as the general interest rate on obligations in Florida by Chapter 687, Florida Statutes, whichever is higher, from the date such payment is due until such time as payment is actually received by the City.”

Rent Payments Were Untimely

For the lease audit period beginning December 1, 2014 through November 30, 2019 (60 months during the period), we noted that the MYC submitted minimum rent payment checks dated after the due date for 19 months of the 60 months. For the same period, we noted that the MYC submitted percentage rent payments late for 20 months of the 60 months. The late payments noted ranged from 1 to 118 days late; and the average number of days late for each month during the period was 41 days. As a result, after applying the late fee as stipulated in the Lease (ranging from 3.25% to 5.33%), the MYC owes the City \$2,659 in late fees.

Rent Payments Were Inaccurate

During the lease audit period of December 1, 2014 through November 30, 2019, the MYC made minimum rent payments totaling \$301,036 and percentage rent payments of \$319,869. Our audit disclosed that the MYC did not pay the percentage rent for the months of January and February 2016 totaling \$10,734. Additionally, due to calculation errors in minimum and percentage rent, the MYC overpaid rent totaling \$3,002 for various years (minimum rent over payments of \$2,078 plus percentage rent overpayments totaling \$924). As a result, the total underpayment of rent due to the City is \$7,732 (\$9,810 - \$2,078).

As a result of the untimely and inaccurate payments, the MYC owes the City late fees of \$2,659 and additional rent of \$7,732, totaling \$10,391 (See Schedule 2 below).

SCHEDULE 2																	
RENT RECALCULATIONS AND LATE FEES																	
Lease Year	MINIMUM RENT				PERCENTAGE RENT				Total Due <i>(Rent plus Late Fees)</i>								
	Min. Rent Amount Due	Min. Rent Amount Due	Over (under) paid	Late Fees On Minimum Rent	Percentage Rent Amt. Due	Percentage Rent Amt. Paid	Over (under) Paid	Late Fees on Percentage Rent									
2015	\$ 57,655	\$ 63,290	\$ 5,635	\$ 133	\$ 53,177	\$ 53,177	\$ -	\$ 255	\$ 5,246								
2016	58,283	53,992	(4,291)	160	66,664	55,930	(10,734)	2,106	(17,292)								
2017	59,311	59,956	645	2	64,630	65,027	397	2	1,037								
2018	60,872	60,892	20	-	69,433	69,759	326	-	346								
2019	62,837	62,907	70	-	75,775	75,976	201	-	271								
<b>Total Due</b>	<b>\$ 298,959</b>	<b>\$ 301,036</b>	<b>\$ 2,078</b>	<b>\$ 295</b>	<b>\$ 329,679</b>	<b>\$ 319,869</b>	<b>\$ (9,810)</b>	<b>\$ 2,364</b>	<b>\$ 10,391</b>								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Total Due to City</th> </tr> </thead> <tbody> <tr> <td style="width: 80%;">Total Rent Due-Adjusted in Finding 1</td> <td style="text-align: right;">\$ 7,732</td> </tr> <tr> <td>Total Late Fees Due (\$295 + \$2,364)</td> <td style="text-align: right;">2,659</td> </tr> <tr> <td><b>Total Due To City</b></td> <td style="text-align: right;"><b>\$ 10,391</b></td> </tr> </tbody> </table>										Total Due to City		Total Rent Due-Adjusted in Finding 1	\$ 7,732	Total Late Fees Due (\$295 + \$2,364)	2,659	<b>Total Due To City</b>	<b>\$ 10,391</b>
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### **RECOMMENDATION 2.1: Miami Yacht Club (MYC)**

We recommend that the MYC pay the late fee of \$2,659 and additional rent of \$7,732, totaling \$10,391, to the City and that the MYC enhance their internal control procedures to ensure that the minimum and percentage rents are paid to the City in a timely manner consistent with the Lease Agreement.

- **Auditee Response:** The MYC will pay \$10,391 to the City of Miami for additional rent and late fee. A calendar scheduling the percentage rent payment and base rent payment has been implemented and a reminder will pop up.
- **Implementation Date:** The MYC will issue a check upon receipt of an invoice from the City's Finance Department. The calendar will be updated immediately.

### **RECOMMENDATION 2.2: FINANCE DEPARTMENT**

We recommend that the City's Finance Department bill and collect the amount due to the City from the MYC in the amount of \$10,391.

- **Auditee Response:** The Finance Department will bill the MYC and collect \$10,391 due to the City.
- **Implementation Date:** Immediately.

### **FINDING 3: INSURANCE COVERAGE WAS NOT IN COMPLIANCE WITH LEASE TERMS**

In accordance with the terms of the Lease Agreement between the City of Miami and the Miami Yacht Club (MYC), Article XII-Sect 12.2 (B), the City of Miami shall be named as a loss payee in the "All Risk" property insurance.

Our review of the current "Certificate of Property Insurance" for the MYC, disclosed that the City was not named as the "loss payee". Failure to name the City as the loss payee could increase the City's risk of sustaining a material financial loss in the event of a major catastrophe. After review, Risk Management (RM) also noted that, per the Lease Agreement, the City should be listed as the "loss payee" as required by the Lease Agreement.

The Department of Real Estate and Asset Management (DREAM) should adequately review all insurance certificates received to ensure that the City is named as the loss payee.

### **RECOMMENDATION 3.1: DEPARTMENT OF REAL ESTATE ASSET MANAGEMENT (DREAM)**

We recommend that DREAM, in consultation with RM, ensure that the MYC immediately obtain the Certificate of Insurance (COI) naming the City as the loss payee. DREAM should develop a procedure to ensure that all insurance coverage is in accordance with the lease requirements.

- **Auditee Response (DREAM)**: The MYC will be contacted immediately to comply with the Lease Agreement by adding the City as the loss payee on the COI. DREAM will develop procedures to ensure that all insurance coverage is in compliance with the lease requirements.
- **Implementation Date**: Immediately

### **RECOMMENDATION 3.2: MIAMI YACHT CLUB (MYC)**

We recommend that the MYC enhance its internal control procedures to ensure that the City is named as the loss payee in accordance with the terms of the lease.

- **Auditee Response**: The City of Miami will be listed as the loss payee on the COI. When insurance policies are renewed, they will be reviewed by the MYC office staff as well as the Underwriter to confirm the City of Miami is listed as loss payee.
- **Implementation Date**: Immediately.