

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement

Unaudited
Special-Purpose Financial Statements and Report of
Independent Certified Public Accountants

As of and For the Years Ended
September 30, 2014 and 2013

CB

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Facilities' special-purpose financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and noncompliance with which could have a direct and material effect on the determination of special-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations under Item 1.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction of Use

This report was prepared solely for the information and use of the Honorable Mayor and Members of the Board of County Commissioners of Miami-Dade County, Florida and the management of the Facilities, and is not intended to be and should not be used by anyone other than these specified parties.

C. Borders-Reynold, CPA LLC

Miami, Florida
January 9, 2015

Miami-Dade Aviation Department
Miami International Airport Facilities'
Management and Operating Agreements

Fiscal Year 2014 Management Letter Recommendations

Item 1: Improper Segregation of Duties

Observation: Essentially all financial reporting and accounting functions including processing cash receipts, cash disbursements and sales tickets, billing customers, performing bank reconciliations, and posting entries to the general ledger were performed by two employees. Additionally, other management had limited oversight over the two employees and did not adequately assess or monitor internal controls which did not ensure adequate safeguards were in place to prevent either of the individuals from having complete control over all phases of a transaction including financial reporting. As a result, the two employees' conspiracy to steal in excess of \$2 million that allegedly occurred over a period of many years was not detected and corrected on a timely basis.

The alleged scheme was a material violation of the provisions of the Management and Operating Agreement by employees of the management company.

Recommendation: We recommend that management perform a risk assessment of internal controls over financial reporting and transaction processing functions including analyzing the segregation of duties of employees of the Facilities. Management should ensure no employee has complete control over all phases of a transaction and that certain duties such as approving customers, setting prices, billing customers, processing cash receipts and sales tickets, and posting entries to the general ledger are performed by separate personnel. Management should also ensure proper monitoring of internal controls to deter collusion and override of controls.

Additionally, the County should consider implementing a lockbox system so that all customer remittances are received directly into the depository bank account.

Current Status: The County is working with the new operator to affect the processing, so that there is segregation of duties. For example, we are allowing their accountant to only compile replenishments, and not to sign off on any expenses, or place any orders or receive any good. Likewise, we are examining the elimination of sales tickets and have done so for one customer. We are attempting to get from the airlines a daily electronic invitation list to be utilized by the front desk to check in customers. Cash is not being accepted and cameras have been installed over the front desk to monitor compliance.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF SPECIAL-PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To The Honorable Mayor and Members of the
Board of County Commissioners of
Miami-Dade County, Florida

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the special-purpose financial statements of assets and liabilities and special-purpose statements of revenues and expenses of the Miami-Dade Aviation Department-Miami International Airport Special Lounge Facilities Management and Operating Agreement (the "Facilities") as of and for the year ended September 30, 2014 and 2013, and the related notes to the special-purpose financial statements, which collectively comprise the Facilities special-purpose financial statements and have issued our report thereon dated January 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the special-purpose financial statements, we considered the Facilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Facilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's special-purpose financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and recommendations to be material weaknesses.

- Item 1- Improper Segregation of Duties

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements – Continued
As of and for the years ended September 30, 2014, and 2013

NOTE 4 – EMPLOYEE THEFT

In March of 2014, management became aware that key IAMI finance employees were allegedly involved in a scheme to steal in excess of \$2 million over a period of many years, including all years presented in the accompanying special-purpose financial statements. In July 2014, the employees involved in the alleged theft were arrested and charged with grand theft, money laundering and organized scheme to defraud \$50,000 or more. Management is unable to determine the extent of the theft and accordingly, no adjustment has been made to the special-purpose financial statements for the effects of the theft.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Facilities from time to time are involved in litigation incidental to the conduct of their business, and such matters can involve current and former Facilities employees and contractors. In the opinion of management, the expected liability, from these claims, in excess of insurance coverage, if any, would not be material to the Facilities' financial position or results of operations.

NOTE 6 – ECONOMIC DEPENDANCY

The Special Lounge Facilities receive approximately 78% in 2014 and 91% in 2013 respectively of total revenues from five customers for the year ended September 30. The largest of the five customers represents approximately 41% in 2014 and 38% in 2013 respectively of total revenues for the year ended September 30. Management of the Special Lounge Facilities believes that the loss of any one or more of these customers could have a detrimental material impact on its financial position and results of operations due to lost sales.

NOTE 7 – RISK MANAGEMENT

The Facilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a result, the Facilities obtained general and property liabilities and worker's compensation insurance coverage.

NOTE 8 – SUBSEQUENT EVENTS

On September 26, 2014, Miami-Dade County gave notice to terminate the Special Lounge Facilities Management and Operating Agreement with IAMI effective September 30, 2014 and entered into an agreement with another management company to replace IAMI.

Management has evaluated subsequent events through January 9, 2015, which is the date these special-purpose financial statements were available to be issued.

Miami-Dade Aviation Department
 Miami International Airport Special Lounge Facilities
 Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements – Continued
 As of and for the years ended September 30, 2014, and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The special-purpose statements of revenue and expenses are intended to show the results of operations for the Facilities managed under the Agreement on behalf of the County; accordingly, no provision has been made for income taxes as the County is an income tax-exempt organization.

Use of Estimates

The preparation of the special-purpose financial statements in conformity with the basis of accounting described above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the special-purpose financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – MANAGEMENT AND OPERATING AGREEMENT

Pursuant to the Agreement, a management fee is payable to the Management Company of the Special Lounge Facilities on a monthly basis. The monthly management fees payable to the Management Company of the Special Lounge Facilities as defined in the Agreement in effect for the fiscal years presented are as follows:

Fiscal Year	Monthly Fixed Management Fee
2014	\$ 7,301*
2013	7,301*

*Pursuant to the Agreements, the management fee also includes an additional variable component based on percentage of revenue or operating profits.

Terms of Agreement

The Special Lounge Agreement between IAMI and the County expired on October 31, 1997 and has continued on a month-to-month basis thereafter. Ordinance 95-138, Section 2-286a(9) extends any concession or management agreement related to the retail activities on a month-to-month basis for so long as may be needed to avoid disruption of concession services to passengers. Such extensions continue unless otherwise terminated by either party upon advanced written notice. See Note 8 for termination notice.

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements – Continued
As of and for the years ended September 30, 2014, and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cost of Sales

Cost of sales are recognized when incurred at the time of sale and are comprised of the cost of products used in providing services to customers or the cost of products for resale.

Payroll and Fringe Benefits

Payroll and fringe benefits are recognized when incurred and include costs of salaries, wages, healthcare and retirement benefits, workers compensation and payroll taxes incurred as compensation to employees of the Facilities. This amount does not include certain accrued compensated absences due employees.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (SG&A) are recognized when incurred and are primarily comprised of costs incurred for third-party service providers, professional fees, selling expenses, credit card fees, advertising and administrative costs, repairs and maintenance for the Facilities, certain capital asset purchases and related depreciation and amortization, and other miscellaneous operating expenses. Such depreciation and amortization related to Club J was approximately \$9,694 in 2014 and \$116,328 in 2013 respectively for the year ended September 30.

Management Fees

Management fees are recognized when incurred and represent costs incurred as compensation to the Management Company for operating the Facilities. See Note 3. These are related party transactions.

Property, Plant, and Equipment & Related Costs

Pursuant to the Agreement, upon budget approval by the County, the Management Company purchases certain fixed assets needed by the Facilities. Such assets are the property of the County and are not recorded in the accompanying special-purpose statements of assets and liabilities of the Facilities. The Management Company is reimbursed or advanced the cost of such assets by the County. These amounts are included in selling, general and administrative expense in the accompanying special-purpose statements of revenue and expenses.

The Management Company also occasionally oversees capital improvements to the Facilities directed by the County. Such capital improvements are the property of the County and are not recorded in the accompanying special-purpose statements of assets and liabilities of the Facilities. The Management Company is reimbursed or advanced the cost of such capital improvements by the County. The costs and related depreciation and amortization are not included in the accompanying special-purpose statements of revenue and expenses, except for the depreciation and amortization of Club J which was expressly required by the County and is included in selling, general, and administrative expenses. See above.

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements – Continued
As of and for the years ended September 30, 2014, and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is estimated by account collection history. Accounts receivable are presented in the accompanying special-purpose financial statements net of allowance for uncollectible accounts, as follows:

<u>September 30,</u>	
2014	\$ 89,083
2013	89,083

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Other Assets

Other assets are stated at amortized cost and are primarily comprised of advance payments made to vendors for insurance coverage.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses represent amounts due to vendors and service providers for unpaid goods and services provided for the operations of the Facilities. Estimated accrued payroll expenses are also included. Certain accrued compensated absences are not included.

Due To Management Company and Related Parties

This amount represents accrued management fees due the Management Company.

Due To/From Aviation Department

Amounts due to the Aviation Department represent the cumulative excess/deficit of revenue over expenses and net receipts and disbursements between the Management Company and the Aviation Department since inception of the Agreement.

Revenue Recognition

Revenue is recognized when earned and realizable. Most revenue transactions represent services rendered and are recognized when the service is provided. Revenue recorded is presented net of taxes collected in escrow on behalf of governmental authorities and remitted by the Management Company or Aviation Department.

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements – Continued
As of and for the years ended September 30, 2014, and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting – Continued

Expenses not reflected therein include charges for certain depreciation and amortization in connection with capital assets located within the Facilities and interest expense, if any. The Facilities and their operations are included as part of the assets, liabilities and operations of Miami-Dade Aviation Department (“Aviation Department”).

The accompanying special-purpose financial statements of the Facilities have been prepared on the full accrual basis of accounting, as prescribed by GASB, except where otherwise noted. Under this measurement focus, the Facilities apply all GASB pronouncements in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

In accordance with provisions of the Agreement, the Facilities deposits, on a daily basis, gross receipts, as defined in the Agreement, into a County-owned and controlled revenue depository bank account.

The Management Company pays the operating expenses of the Facilities. The County reimburses the Management Company for all approved reimbursable operating expenses, as defined in the Agreements. The sales tax liability for the Facilities is included in accounts payable and accrued expenses in the accompanying special-purpose statements of assets and liabilities.

Basis of Presentation

The accompanying special-purpose financial statements were prepared for the purpose of complying with the Agreement. Statements of cash flows are not required under the Agreement and have not been presented.

Cash

Cash represents amounts on hand and amounts held in demand deposit accounts with certain financial institutions that were in the name of the Facilities/Management Companies and/or the Aviation Department. From time-to-time, certain cash bank balances on deposit with one financial institution exceeded the federally insured limits. Management of the Facilities believe such cash is not exposed to any significant credit risk of loss.

Accounts Receivable, Net

Accounts receivable, net are stated at the amount of customers' outstanding balances, less any allowance for uncollectable accounts. Interest is not accrued on overdue accounts receivable. Unsettled sales on credit card and other third-party accounts are also included in accounts receivable, net in the accompanying special-purpose statements of assets and liabilities.

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited

Notes to the Special-Purpose Financial Statements
As of and for the years ended September 30, 2014, and 2013

NOTE 1 – GENERAL

Miami-Dade County, Florida (the "County") entered into a Management and Operating Agreement (the "Agreement") with a third party (the "Management Company") to operate, maintain and manage the Special Lounge Facilities (the "Facilities") at Miami International Airport (the "Airport") on behalf of the County. The Agreement provides for a fixed management fee and/or fees based on percentages of revenue and/or operating profits of the Facilities. While the County generally looks toward the Management Company for recommendations relative to operation of the Facilities, the County does exercise complete budgetary control and establishes guidelines and goals for growth and performance. Such actions are taken within the rights reserved by the County under the Agreement to control all aspects of the business. These actions include such matters as pricing, staffing, employee benefits, operating hours, maintenance requirements, service levels, merchandise selections, personnel policies and marketing strategies. In the event the Management Company does not perform in accordance with the standards established by the County, the County has the right to cancel such Agreement. The Management Company does not act as general agents on behalf of the County and, therefore, cannot obligate or commit the County beyond the scope of what is required to run the day-to-day operations of the managed Facilities, as established by the budgets approved by the County. See Note 8.

The Facilities performs a distinct function for the County, which generates revenues to offset the cost of operations and supplement the County's budget. The Special Lounge Facilities consist of Club F and Club J which each provide a leisure environment for travelers, generally by subscription, to relax and enjoy and assortment of snacks and beverages as they await their flight. The Management Company contracted to operate, maintain, and manage the Special Lounge Facilities is International Airport Management, Inc. ("IAMI"). See Note 3 for more details on the Agreement termination dates and management fees.

Effective November 1, 2013, Miami-Dade County relieved the Special Lounge Facilities from stewardship of Club J, one of two passenger lounges managed under the Agreement, and leased Club J to a third-party airline company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The special-purpose financial statements of the Facilities conform to accounting principles generally accepted in the United States of America, except for the exclusion of certain assets, liabilities and expenses. The special-purpose statements of assets and liabilities include only those assets and liabilities which are recorded in the books of the Facilities, as maintained by the Management Company for the County pursuant to the Agreement. Assets not reflected therein include, but are not limited to, cash in revenue depository bank accounts, net assets, and capital assets. Liabilities not reflected therein relate primarily to other operating expenses paid directly by the County, debt, and certain accrued compensated absences. The special-purpose statements of revenue and expenses include only those expenses, which are incurred by the Facilities under the terms of the Agreement.

Miami-Dade Aviation Department
 Miami International Airport Special Lounge Facilities
 Management and Operating Agreements

Unaudited
 Special-Purpose Statements of Revenues and Expenses
 For the Year Ended September 30,

	2014	2013
Revenues		
Sales	\$ 2,181,210	\$ 6,080,518
Less: Cost of sales	179,334	471,660
Gross margin	2,001,876	5,608,858
 Expenses		
Payroll and fringe benefits	281,844	906,277
Selling, general, and administrative expenses	166,118	316,043
Management fees	157,867	302,557
Total expenses	605,829	1,524,877
Excess of revenues over expenses	\$ 1,396,047	\$ 4,083,981

See accompanying notes to the unaudited special-purpose financial statements.

Miami-Dade Aviation Department
 Miami International Airport Special Lounge Facilities
 Management and Operating Agreement

Unaudited
 Special-Purpose Statements of Assets and Liabilities
 As of September 30,

	2014	2013
Assets		
Cash	40,000	\$ 40,000
Accounts receivable, net	245,095	952,338
Inventory	5,256	18,536
Other assets	3,046	11,033
Total assets	\$ 293,397	\$ 1,021,907
 Liabilities		
Accounts payable and accrued expenses	48,198	\$ 95,871
Due to Management Company and Related Parties	19,953	23,226
Due to Aviation Department	225,246	902,810
Total liabilities	\$ 293,397	\$ 1,021,907

See accompanying notes to the unaudited special-purpose financial statements.



Disclaimer of Opinion

The accompanying special-purpose financial statements have been prepared for the purpose of complying with the Management and Operating Agreement between Miami-Dade County, Florida, and the Management Company of the Miami International Airport Special Lounge Facilities as described in Note 2 to the special-purpose financial statements, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, these special-purpose financial statements are intended to present the assets and liabilities, revenues and expenses of only the portion of Miami-Dade Aviation Department that are attributable to the transactions of the Facilities. They do not purport to, and do not, present fairly the financial position of Miami-Dade Aviation Department, as of September 30, 2014 and 2013 and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the special-purpose financial statements referred to in the first paragraph.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015 on our consideration of the Facilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Facilities' internal control over financial reporting and compliance.

Restriction of Use

This report was prepared solely for the information and use of the Honorable Mayor and Members of the Board of County Commissioners of Miami-Dade County, Florida and the management of the Miami International Airport Special Lounge Facilities, and is not intended to be and should not be used by anyone other than these specified parties.

C. Anderson-Byrd, CPA

Miami, Florida
January 9, 2015



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To The Honorable Mayor and Members of the
Board of County Commissioners of
Miami-Dade County, Florida

We were engaged to audit the accompanying special-purpose statements of assets and liabilities and special-purpose statements of revenues and expenses of the Miami-Dade Aviation Department-Miami International Airport Special Lounge Facilities Management and Operating Agreement (the "Facilities") as of and for the years ended September 30, 2014 and 2013 and the related notes to the special-purpose financial statements, which collectively comprise the Facilities' special-purpose financial statements as listed in the table of contents.

Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the provisions of the Facilities' Management and Operating Agreement and accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these special-purpose financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As described in Note 4 to the special-purpose financial statements, key employees of the Facilities were arrested in connection with an allegation that an employee theft involving unrecorded sales and cash receipts from customers that were not included in the Facilities' accounting records for each of the years ended September 30, 2014 and 2013. As a result, certain cash receipt, billing, and sales records and supporting data were not available for our audit. As of the date of our audit report, management was unable to determine the extent of the theft or quantify and correct resulting misstatements for effects of the theft. We were unable to obtain sufficient appropriate audit evidence regarding the completeness of numerous elements making up the accompanying special-purpose statements of assets and liabilities and revenues and expenses including net accounts receivable, due to/from Aviation Department and certain other liabilities, sales, and theft loss by other auditing procedures or determine whether any adjustments might have been found necessary in respect to the aforementioned elements of the special-purpose financial statements. Additionally we were unable to obtain written representations from management of the Miami-Dade Aviation Department and the Facilities as required by auditing standards generally accepted in the United States of America.

Miami-Dade Aviation Department
Miami International Airport Special Lounge Facilities
Management and Operating Agreement
Unaudited
Special-Purpose Financial Statements

September 30, 2014 and 2013

Table of Contents

Financial Section	
Report of Independent Certified Public Accountants	1
Unaudited Special-Purpose Statements of Assets and Liabilities.....	3
Unaudited Special-Purpose Statements of Revenues and Expenses	4
Unaudited Notes to Special-Purpose Financial Statements	5
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Special-Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11
Unaudited Schedule of Findings and Recommendations.....	13