

CITY OF MIAMI
OFFICE OF AUDITOR GENERAL



**AUDIT OF THE LEASE AND AGREEMENT FOR
DEVELOPMENT BETWEEN THE CITY AND
HYATT EQUITIES, LLC**

AUDIT NO. 04-006

Prepared By
Office of Auditor General

Victor I. Igwe, CPA, CIA
Auditor General

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City of Miami

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April 20, 2004

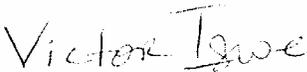
Honorable Members of the
City Commission
City of Miami
3500 Pan American Dr.
Coconut Grove, FL 33133-5504

Re: Audit of the Lease and Agreement for Development Between the City and Hyatt
Equities, LLC (Lease Agreement)
Audit No. 04-006

In accordance with the provisions of Section 48 of the City Charter, the Office of Auditor General has performed an audit of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC (Lease Agreement). The audit focused on determining compliance with the terms of the Lease Agreement, as amended, and compliance with applicable laws.

The audit covered the period January 1 through December 31, 2002, and selected transactions prior and subsequent to this period.

Sincerely,


Victor I. Igwe, CPA, CIA
Auditor General
Office of Auditor General

C: The Honorable Mayor Manuel A. Diaz
Joe Arriola, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Linda M. Haskins, CPA, Chief Financial Officer/Deputy Chief Administrator
Alicia Cuervo-Schreiber, Chief Operating Officer
Larry Spring, Chief of Strategic Planning, Budgeting and Performance
Peter W. Korinis, Chief Information Officer
Christina P. Abrams, Director, Conferences, Conventions & Public Facilities
department
Alejandro Vilarello, City Attorney
Priscilla A. Thompson, City Clerk
Donald Riedel, Director, Office of Citistat
J. Scott Simpson, CPA, Director, Finance department
Donna Lewis, Hyatt Regency Miami
Audit Documentation File

**AUDIT OF THE LEASE AND AGREEMENT FOR DEVELOPMENT BETWEEN
THE CITY AND HYATT EQUITIES, LLC
(MIAMI CONVENTION CENTER)
FOR THE PERIOD OF JANUARY 1, 2002, THROUGH DECEMBER 31, 2002**

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INTRODUCTION

This report details the results of our audit of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, as amended (Lease Agreement). In September 1979, a lease agreement was executed for development of a hotel, convention center and parking garage between the City and Miami Center Associates (MCA). The Lease Agreement outlines the rights and responsibilities of the City and the Developer. The Hyatt, the eventual successor to MCA, is required to pay the City a fixed annual amount plus a percentage of gross sales as rent for designated space usage. During Hyatt's fiscal year of January 1 through December 31, 2002, it reported revenues of \$22,950,329 and net profit of \$1,266,333. During said year, the Hyatt paid the City a total of \$428,020 in rental charges.

The Hyatt Regency of Miami consists of 612 guest rooms, 27 meeting rooms, a heated outdoor swimming pool and a fully equipped exercise facility. Guest services include: a business center, concierge, gift shop, laundry/dry cleaning and valet parking. It is located in downtown Miami on the Miami River.

SCOPE AND OBJECTIVES

This audit was performed pursuant to the authority set forth in Section 48 of the City Charter entitled: “Office of the Independent Auditor General” (OAG), and was conducted in accordance with the OAG’s fiscal year 2004 Audit Plan. The audit covered the period of January 1, 2002, through December 31, 2002, and selected transactions prior and subsequent to this period. In general, the audit focused on the following objectives:

- Assessed the propriety and completeness of rents paid to the City from Hyatt.
- Reviewed the process of allocating utilities costs charged to the City.
- Evaluated the efficiency, effectiveness, and the prudence in which the convention center was utilized.
- Ascertained compliance with other requirements of the lease agreement.
- Determined whether receipts were properly and timely collected, deposited, and recorded.

METHODOLOGY

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. The audit methodology included the following:

- Interviewed and inquired of appropriate City and Hyatt personnel, and reviewed and observed applicable agreements and procedures, in order to gain an understanding of the internal controls, assessed control risk, and planned substantive testing.
- Performed analytical review procedures.
- Performed substantive testing consistent with the audit objectives.
- Examined, on a test basis, applicable transactions and records.
- Drew conclusions based on the testing and made corresponding recommendations.

SUMMARY OF AUDIT FINDINGS

HYATT EQUITIES (HYATT) AND CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT (PF DEPARTMENT)

COMPLIANCE WITH CERTAIN PROVISIONS OF THE LEASE AGREEMENT.

As part of this audit, we conducted various audit tests, on a sample basis, to determine compliance with certain provisions of the Lease Agreement, applicable resolutions, laws and reporting requirements. Our tests disclosed that City management materially complied with the following:

- City Management has properly deposited and recorded in its financial records rent monies collected from Hyatt during the audit period.
- Hyatt and the City obtained adequate levels of commercial general liability, automobile liability, and property damage insurance coverage for the period audited.
- Hyatt obtained an audit for its fiscal year 2002 in accordance with the Lease Agreement, as amended. The accounting firm of Deloitte and Touché, LLP, issued an unqualified opinion on February 7, 2003, for Hyatt Regency Miami's Special Purpose Financial Statements for the year ended December 31, 2002.

HYATT EQUITIES (HYATT) AND CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT (PF DEPARTMENT)

THE DECREASE IN THE NUMBER OF GUEST ROOMS AVAILABLE FOR RENTAL.

Amendment 6, Section D.3.(c) of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, (Lease Agreement), defines the hotel to be a “first class” hotel consisting of not less than 615 rooms. Beginning January 1, 1999, three rooms were converted into a large one room suite, used for the residence of the Hotel’s General Manager. Therefore the Hotel has had only 612 available guest rooms since January 1, 1999.

This resulted in a shortfall of rental income to the City in relation to what it should have been for a “first class” hotel with no less than 615 rooms. We estimate the shortfall to the City to be \$28,373, using occupancy rates and average room rates as the basis of the calculation for the period January 1, 1999, through December 31, 2003.

As discussed in detail on pages 11 and 12, Hyatt disagreed with our methodology for calculating additional rent due to the City as a result of the reduction in the number of rooms and indicated that potential lost revenue occurs only when rooms are sold out, which is only 10 to 15 nights per year. Hyatt’s calculation of estimated shortfall of rental income to the City totaled \$180 for the period January 1, 1999, through December 31, 2003.

**CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT
(PF DEPARTMENT)**

NONCOMPLIANCE WITH LEASE AGREEMENT REQUIREMENTS.

Our review of the Lease and Agreement for Development between the City and Hyatt Equities, LLC (Lease Agreement), disclosed certain noncompliance issues as noted below:

SURVEY WAS NOT PERFORMED AS REQUIRED IN THE LEASE AGREEMENT, AS AMENDED.

- Section D.5.(a) of the agreement dated July 29, 1997, executed simultaneously with and made part of Amendment 6 of the Lease Agreement, indicates that an inside survey is required to be performed on the structure comprising the Miami Convention Center, the University of Miami, and the Hyatt Hotel. The amendment requires the survey to be paid for by Hyatt in an amount up to \$25,000, and the City to pay for any costs exceeding \$25,000. To date, no such proper survey with legal description has been conducted since the 1997 amendment. We were provided with a draft of a 1994 survey (schedule/map). According to the Director of PF department and the Hyatt, the said draft survey, which appears to indicate that Hyatt may have been occupying 100,510 of square footage, was never finalized and/or officially accepted by the City and Hyatt. During our walk through of the Hyatt facility on October 31, 2003, we observed that all of the various areas shown on the aforementioned draft 1994 survey appeared to be occupied and in use by the Hyatt. See page 13 for additional details.

SQUARE FOOTAGE USED MAY BE IN EXCESS OF LEASE AGREEMENT.

- Section 12.1 of the original Lease Agreement, executed in 1979, specifies that 97,925 square footage of the structure comprising the Miami Convention Center, the University of Miami, and the Hyatt Hotel, is to be leased to the Hyatt for use in operating a first class hotel. Amendments 2 and 3, enacted in 1987 and 1988, respectively, reduced the space to be leased to the Hyatt through an exchange of space to 88,279 square feet. However, based on the draft 1994 survey (schedule/map) provided during the current audit fieldwork, as noted on page 6, it appears that Hyatt may have been using 100,510 square feet, or 12,231 in excess of the space authorized as provided in Section 12.1 of the Lease Agreement, as amended. Any failure to abide by the square footage provisions in the Lease Agreement, as amended, may result in a business arrangement that varies from what was approved by the City Commission. In response to our request for legal opinion, the City Attorney concluded that the Lease agreement did not describe the leased space and the payment of rent on a per square foot basis, therefore, the charging of rent for the use of additional space is not an authorized remedy. See pages 14 and 15 for additional details.

ALLOCATION OF ELECTRICITY CHARGES MAY NOT REFLECT ACTUAL USAGE.

- Section 7 of the Lease Agreement and Section 6 of the Operation and Maintenance Agreement govern the allocation of various utility costs, including but not limited to, hot and chilled water, electric, gas, and sewage, to each of the parties occupying the Convention Center. The basis for electricity charges is readings from meters that were installed during the construction of the facility in 1980-82. When these meters were installed in 1980-82, the meters were to measure the Hyatt's use of 97,925 square feet of space. However, based on a draft survey that was not finalized, as noted on page 6, it appears that Hyatt may

be using 100,510 square feet. Consequently, the Hyatt may be using more electricity than that being measured by the meters, and the City may be absorbing the difference in cost. See pages 15 and 16 for additional details.

RESTATEMENT OF LEASE REQUIRED.

- Section D.5.(b) of the agreement dated July 29, 1997, executed simultaneously with and made part of Amendment 6 of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, (Lease Agreement), provides that the City and Hyatt will execute a Restated Lease, which will consolidate all amendments and update the Lease by deleting all inapplicable provisions. Since the original lease document dated September 1, 1979, there have been six amendments executed as itemized on page 17. To date, no such Restated Lease has been executed as provided in Amendment 6 of the Lease Agreement. The absence of a restated lease makes it more cumbersome and difficult for responsible staff to monitor each party's rights and obligations under the Lease Agreement. Restatement of the Lease Agreement as required in Amendment 6 would facilitate the monitoring and compliance of the Lease Agreement by all applicable parties.

MONITORING OF LEASE AGREEMENT.

- Good business practices would call for management to oversee and monitor compliance with all contracts and lease agreements to which it is party. Relative to the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, as amended (Lease Agreement), the Conferences, Conventions, and Public Facilities Department (PF Department) should be monitoring compliance with items including, but not limited to, rooms required by Hyatt,

survey requirement, square footage occupied by each party, utilities billed each party, and other requirements of the Lease Agreement. Apparently, as evidenced in the above findings, the PF Department has not effectively monitored or enforced the requirements of this Lease Agreement. When the monitoring process is not consistently performed, there is increased risk that rights and responsibilities of applicable parties may not be enforced.

AUDIT FINDINGS AND RECOMMENDATIONS

HYATT EQUITIES (HYATT) AND CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT (PF DEPARTMENT)

COMPLIANCE WITH CERTAIN PROVISIONS OF THE LEASE AGREEMENT.

As part of this audit, we conducted various audit tests, on a sample basis, to determine compliance with certain provisions of the Lease Agreement, applicable resolutions, laws and reporting requirements. Our tests disclosed that City management materially complied with the following:

- City Management has properly deposited and recorded in its financial records rent monies collected from Hyatt during the audit period.
- Hyatt and the City obtained adequate levels of commercial general liability, automobile liability, and property damage insurance coverage for the period audited.
- Hyatt obtained an external audit for its fiscal year 2002 in accordance with the Lease Agreement, as amended. The accounting firm of Deloitte and Touché, LLP, issued an unqualified opinion on February 7, 2003, for Hyatt Regency Miami's Special Purpose Financial Statements for the year ended December 31, 2002.

HYATT EQUITIES (HYATT) AND CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT (PF DEPARTMENT)

THE DECREASE IN THE NUMBER OF GUEST ROOMS AVAILABLE FOR RENTAL.

Amendment 6, Section D.3.(a) of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, (Lease Agreement) authorizes and requires rental charges payable to the City from Hyatt for certain space (approximately 88,000 square feet) in the Miami Convention Center that is leased to the hotel. The annual rent comprises a fixed payment of \$250,000 and a percentage of the hotel's gross revenue, based on a sliding scale of 0.55% to 7.5%.

Amendment 6, Section D.3.(c) of the said agreement, defines the hotel to be a "first class" hotel consisting of not less than 615 rooms. Beginning January 1, 1999, three rooms were converted into a large one room suite, used for the residence of the Hotel's General Manager. Therefore the Hotel has had only 612 available guest rooms since January 1, 1999.

This resulted in a shortfall of rental income to the City in relation to what it should have been for a "first class" hotel with no less than 615 rooms. We estimate the shortfall to the City to be \$28,373, using occupancy rates and average room rates as the basis of the calculation for the period January 1, 1999, through December 31, 2003.

Upon audit inquiry, Hyatt officials stated as noted below:

While Amendment number 6 to the Lease Agreement amends the definition of "Hotel" and makes reference to 615 rooms, there are no separate contractual covenants in the Lease requiring Hyatt to maintain that room count. Until 1995, the hotel had historically contained a General Manager's Suite. As the General Manager's Suite was no longer required in the mid-1990's, it was converted into a Presidential Suite so as to enhance the hotel's competitive

position in the downtown Miami market. In 1999, the need once again arose for a General Manager's Suite. Rather than reclaim the Presidential Suite for this purpose, Hyatt converted rooms on another floor for this purpose. The City was aware of the reduction in the number of rooms. The revenues from the addition of the Presidential Suite in 1995 should serve as a reduction in the revenue shortfall that may be due to the City.

Hyatt disagreed with our methodology for calculating additional rent due to the City as a result of the reduction in the number of rooms and indicated that potential lost revenue occurs only when rooms are sold out, which is only 10 to 15 nights per year. Hyatt's calculation of estimated shortfall of rental income to the City totaled \$180 for the period January 1, 1999, through December 31, 2003.

Recommendation

We recommend that the City's PF department consult with the City Attorney's Office and determine what additional rent may be due to the City. The Finance department should invoice the Hyatt accordingly. The PF Department should also work with the City Attorney's Office to determine the best means to rectify the room shortage starting with the calendar year 2004.

Auditee's Response and Action Plan

As noted above, Hyatt disagreed with this audit finding and estimated that revenue shortfall to the City, if any, totals \$180.

**CONFERENCES, CONVENTIONS AND PUBLIC FACILITIES DEPARTMENT
(PF DEPARTMENT)**

NONCOMPLIANCE WITH LEASE AGREEMENT REQUIREMENTS.

Our review of the Lease and Agreement for Development between the City and Hyatt Equities, LLC (Lease Agreement), disclosed certain noncompliance issues as noted below:

SURVEY WAS NOT PERFORMED AS REQUIRED IN THE LEASE AGREEMENT, AS AMENDED.

- Section D.5.(a) of the agreement dated July 29, 1997, executed simultaneously with and made part of Amendment 6 of the Lease Agreement indicates that an inside survey is required to be performed on the structure comprising the Miami Convention Center, the University of Miami, and the Hyatt Hotel. The amendment requires the survey to be paid for by Hyatt in an amount up to \$25,000, and the City to pay for any costs exceeding \$25,000. To date, no such proper survey with legal description has been conducted since the 1997 amendment. We asked the Conferences, Conventions, and Public Facilities department (PF Department) and the Hyatt for the square footage currently being occupied by Hyatt and both provided us with a draft of a 1994 survey (schedule/map). According to the Director of PF department and the Hyatt, the said draft survey, which appears to indicate that Hyatt may have been occupying 100,510 of square footage, was never finalized and/or officially accepted by the City and Hyatt. We also performed a walk through of the Hyatt facility on October 31, 2003, and observed that all of the various areas shown on the aforementioned draft 1994 survey appeared to be occupied and in use by the Hyatt.

SQUARE FOOTAGE USED MAY BE IN EXCESS OF LEASE AGREEMENT.

- Section 12.1 of the original Lease Agreement, executed in 1979, specifies that 97,925 square footage of the structure comprising the Miami Convention Center, the University of Miami, and the Hyatt Hotel, is to be leased to the Hyatt for use in operating a first class hotel. Amendments 2 and 3, enacted in 1987 and 1988, respectively, reduced the space to be leased to the Hyatt through an exchange of space to 88,279 square feet. However, based on the draft 1994 survey (schedule/map) provided during the current audit fieldwork, as noted on page 13, it appears that Hyatt may have been using 100,510 square feet, or 12,231 in excess of the space authorized as provided in Section 12.1 of the Lease Agreement, as amended. Any failure to abide by the square footage provisions in the Lease Agreement, as amended, may result in a business arrangement that varied from what was approved by the City Commission. In our request for legal opinion, we inquired whether rent per square foot could be used to assess additional rent for any excess space that may have been utilized annually during the period January 1, 1997, through December 31, 2003. In a legal opinion dated March 19, 2004, the City Attorney concluded:

“The lease does not describe the Leased Space and the payment of Rent on a per square foot basis and, therefore, the charging of rent on a per square foot basis cannot be implied from the Lease. If the Hyatt is using space that is not included within the Leased Space without the City’s consent, then the City may declare a default and, if the Hyatt fails to stop such unauthorized use within the applicable cure period, the City may proceed to enforce its rights and remedies under the Lease. The charging of Rent for the use of additional space is not an authorized remedy.”

In response to this audit finding, the Director of PF department noted that some of the areas shown as being entirely occupied/used by Hyatt on the 1994 draft survey, as noted above, are considered to be spaces shared by the City and the

Hyatt. Also, she stated that a survey, which would confirm that the Hyatt uses less than 100,000 square feet, is currently in progress.

ALLOCATION OF ELECTRICITY CHARGES MAY NOT REFLECT ACTUAL USAGE.

- Section 7 of the Lease Agreement and Section 6 of the Operation and Maintenance Agreement govern the allocation of various utility costs, including but not limited to, hot and chilled water, electric, gas, and sewage, to each of the parties occupying the Convention Center. The basis for electricity charges is readings from meters that were installed during the construction of the facility in 1980-82. When these meters were installed in 1980-82, the meters were to measure the Hyatt's use of 97,925 square feet of space. However, a draft survey that was not finalized, as noted on page 13, appears to indicate that Hyatt may be using 100,510 square feet. Consequently, the Hyatt may be using more electricity than that being measured by the meters, and the City may be absorbing the difference in cost. In a written response, the PF Department indicated that its electrical consumption is not based on square footage; rather it is based on BTU readings of the meters for each of the entities that comprise the Miami Convention Center. However, please note that there is a direct correlation between the space an entity uses/occupies and its utility/electrical consumption.

During the period January 1, through December 31, 2002, the City paid \$505,335.16 in electricity charges and occupied 274,790 square feet of the premises. Upon audit inquiry, the PF Department provided us with Request For Qualification number 01-02-224, dated March 17, 2003, in connection with Energy Performance Savings Contracting Services, which evidences the selection of Florida Power and Light as the top ranked firm by an evaluation committee. The PF department management stated it plans to use this contract to have a study of electricity costs performed.

In a written response to this audit finding, a Hyatt representative stated that although chilled water usage is separately metered, it appears the BTU meters were never adjusted to reflect the exchange of spaces as authorized by some of the early Lease amendments. The Hyatt representative further stated, “It is my understanding that we have collectively agreed to continue with the status quo for the time being, without any further allocations between us, and that the metering will be corrected when the chiller plant is renovated in 2005.”

Recommendation

We recommend that the PF department and Hyatt arrange to have a proper survey performed as required in Amendment 6 of the Lease Agreement. In addition to and in conjunction with the performance of a proper survey, a study should be performed by persons knowledgeable and competent in the field of electricity and utility consumption in order to determine that the City is not paying an excess for its electricity usage in the Convention Center.

Auditee’s Response and Action Plan

PF Department indicated it seeks to retain a qualified firm to conduct a comprehensive study of electrical consumption for the facility. A survey as required in the Lease Agreement, is in progress.

RESTATEMENT OF LEASE REQUIRED.

Section D.5.(b) of the agreement dated July 29, 1997, executed simultaneously with and made part of Amendment 6 of the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, (Lease Agreement), provides that the City and Hyatt will execute a Restated Lease, which will consolidate all amendments and update the Lease by deleting all inapplicable provisions. Since the original lease document dated September 1, 1979, there have been six amendments executed as follows:

<u>Amendment Number</u>	<u>Date of Amendment</u>
1	September 11, 1986
2	September 1, 1987
3	September 1, 1988
4	December 23, 1992
5	July 1, 1994
6	July 30, 1997

To date, no such Restated Lease has been executed as provided in Amendment 6 of the Lease Agreement. The absence of a restated lease makes it more cumbersome and difficult for responsible staff to monitor each party's rights and obligations under the Lease Agreement. Restatement of the Lease Agreement as required in Amendment 6 would facilitate the monitoring and compliance of the Lease Agreement by all applicable parties.

Recommendation

We recommend that the PF Department and Hyatt consult with their respective legal counsels to execute the required restatement.

Auditee's Response and Action Plan

The PF Department concurred with the finding.

MONITORING OF LEASE AGREEMENT.

Good business practices would call for management to oversee and monitor compliance with all contracts and lease agreements to which it is party. Relative to the Lease and Agreement for Development Between the City and Hyatt Equities, LLC, as amended (Lease Agreement), the Conferences, Conventions, and Public Facilities Department (PF Department) should be monitoring compliance with items including, but not limited to, rooms required by Hyatt, survey requirement, square footage occupied by each party, utilities billed each party, and other requirements of the Lease Agreement. Apparently, as evidenced in the above findings, the PF Department has not effectively monitored or enforced the requirements of this Lease Agreement. When the monitoring process is not consistently performed, there is increased risk that rights and responsibilities of applicable parties may not be enforced.

In response to this audit finding, the PF Director acknowledged that her department failed to notice that Hyatt converted 3 rooms into an apartment and that an inside survey was not performed as required in the Lease Agreement as amended in 1997. However, she believes that her department effectively monitored the Lease Agreement and does not believe such oversights warrant such a harsh finding.

Recommendation

We recommend that the PF Department enhance its effort in monitoring compliance with and enforcing the provisions of the Lease Agreement, as amended.

Auditee's Response and Action Plan

As stated above and on a written response as shown on Page 20, the Director of the PF Department acknowledges some oversight issues. The department Director also stated that revenues have increased significantly since 1997.

RECEIVED

APR 01 2004

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Victor Igwe
Auditor General

DATE: March 31, 2004

FILE:

SUBJECT: Draft Audit No. 04-006 of the Lease
and Agreement Between City and
Hyatt Equities, LLC

FROM: 
Christina P. Abrams, Director
Conferences, Conventions & Public Facilities

REFERENCES:

ENCLOSURES:

This is in response to Draft Audit No. 04-006 of the Lease and Agreement for Development between the City and Hyatt Equities, LLC.

ALLOCATION OF UTILITY CHARGES MAY NOT REFLECT ACTUAL USAGE

It is incorrectly noted in the draft audit findings that the meters measure the Hyatt's utility/electrical consumption based on square footage. In fact, the electrical consumption is based on the BTU readings of the meters for each of the entities that comprise the Miami Convention Center. The City does not pay for water, sewage, and gas. These utilities are paid for by the Hyatt.

The Department of Conferences, Conventions & Public Facilities seeks to retain a qualified firm to conduct a comprehensive study of electrical consumption for the facility including the piping network distribution system to 1) improve energy efficiencies, 2) determine accurate consumption, and 3) improve reporting and monitoring of electrical consumption in order to make necessary adjustments to reduce consumption whenever possible. We believe this will improve energy efficiency and more accurately reflect consumption.

MONITORING OF LEASE AGREEMENT

The Department of Conferences, Conventions & Public Facilities effectively monitors the Lease Agreement between the City and Hyatt. We acknowledge that we failed to notice the Hyatt converted into an apartment 3 of the 615 hotel rooms and that an inside survey was not performed as required in the Lease Agreement as amended in 1997. However, we do not see how this oversight warrants such a harsh finding, particularly since the Department's management of the Lease Agreement resulted in increasing revenues to the City to over \$4,500,000 since 1997; whereas, prior to 1997 the City received a total of less than \$500,000 and most of this was in the form of a rent credit that was never actually paid to the City.

C: Linda Haskins, Chief Financial Officer