MIAMI-DADE COUNTY
OFFICE OF THE INSPECTOR GENERAL

FINAL AUDIT REPORT

Agreement Between Miami-Dade Transit and the Miami-Dade Empowerment Trust to Jointly Develop the 7th Avenue Transit Village Project

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INTRODUCTION

Former Miami-Dade Transit Director Roosevelt Bradley, in a request dated February 1, 2007, to the Inspector General (OIG), asked the OIG to review the Miami-Dade Empowerment Trust's (MDET) selection of Red Rock Global, LLC (RRG) as its development partner, in the 7th Avenue Transit Village Project (Project), and to determine what, if any, Project-related deliverables RRG has produced. In addition, Director Bradley, in a follow-up meeting with the OIG, expressed his concerns about MDET's first invoice to Transit, totaling $136,515. The OIG recommended to Transit that it not pay MDET until the OIG completed an audit of the invoiced costs. Director Bradley agreed. Accordingly, the OIG audited MDET's invoice to Transit for Project costs to ensure that proper records support the accuracy, completeness and existence of the requested amounts and that all such amounts are Project related. As it happened, it was necessary for the OIG to review RRG's reimbursement requests to MDET because it was these RRG requests that MDET passed through to Transit.

Project Overview

On December 6, 2005, the Miami-Dade Board of County Commissioners (BCC) approved Resolution No. R-1339-05, that authorized a *Memorandum of Understanding* (MOU) between Miami-Dade Transit and the Miami-Dade Empowerment Trust.[1] The MOU was a necessary predecessor to negotiations between the two entities to finalize a Joint Development Agreement (JDA) to develop a Passenger Activity Center at the southeast corner of NW 7th Avenue and NW 62nd Street, otherwise known as the 7th Avenue Transit Village Project or the MLK Transit Village Project. The Project is an $86.5 million mixed-use development that will include:

- 37,200 sq. ft. of retail facilities (shops and restaurants),
- 24,000 sq. ft. of office space,
- 140 senior residential units and 125 market-rate residential units,
- a 646 space parking facility,
- a 4,500 sq. ft. Transit support facility (waiting room, driver lounge, ticket facility and restrooms),
- an 8-bay bus terminal, and
- a Transit plaza (bus shelters, outdoor seating and garden space).

After the BCC action of December 2005, Transit Director Bradley executed a *Letter of Agreement* with MDET, dated June 1, 2006. The *Letter of Agreement*'s main purposes

[1] This MOU was executed January 11, 2006.

were to confirm Transit/MDET's mutual understanding of MDET's estimated Project costs, totaling $996,826, for "the initial phase of the Project through the completion of the schematic design and execution of an approved Joint Development Agreement (JDA)" and to formalize a cost-sharing allocation. In addition, MDET requested Transit's approval to commence the initial Project phase:

> MDET has advised MDT that it is relying upon MDT's agreement to make the forgoing reimbursements, and that MDET would not otherwise proceed with the Initial Phase of the Project without this binding commitment from MDT.

With its *Letter of Agreement*, MDET included a letter proposal and budget from its development partner, Red Rock Global, LLC and letter proposals from RRG's primary consultants, Beauchamp Construction Company and Perez & Perez Architects Planners. In addition, on June 1, 2006, MDET submitted its first invoice to Transit for Project costs, totaling, $136,515.

TERMS USED IN THIS REPORT

BCC	Board of County Commissioners, Miami-Dade County
Trust Board	Board of Directors, Miami-Dade Empowerment Trust
JDA	Joint Development Agreement
JDP	Joint Development Proposal
Transit or MDT	Miami-Dade Transit
MDET	Miami-Dade Empowerment Trust
OIG	Office of the Inspector General
Pool	Joint Developers Pool
Project	7th Avenue [MLK] Transit Village Project
RFQ	Request for Qualifications, Miami-Dade Empowerment Trust
RRG	Red Rock Global, LLC

RESULTS SUMMARY

MDET/RRG Reimbursement Requests (i.e., payment requisitions)

As a result of our audit, the OIG has determined that all of the $351,906 paid by MDET to RRG, based on RRG's first three invoices, are questioned costs. [2] Included therein is the $136,515 that MDET invoiced Transit. OIG Findings Nos. 2 – 4 describe the specific reasons supporting our determination. We note that these amounts correspond to only approximately one-third of this Project's "initial" or "pre-development" phase—budgeted at almost $1 million—of an overall total project budget estimated to be over $80 million dollars. Thus, we are confident that because these irregularities were detected very early in the Project, they can be rectified and future deficiencies can be avoided. We present a summary listing of our questioned costs in the following Table 1:

TABLE 1 Questioned Costs

Description	RRG Invoice #1	RRG Invoice #2	RRG Invoice #3	Total RRG Invoice Amounts	MDET Invoice to Transit
Design Services – HOK	$27,793	$20,760	$6,644	**$55,197**	$3,322
RRG Reimbursables	$20,847	$10,881	$5,800	**$37,528**	$2,900
Architect Reimbursables			$5,000	**$5,000**	$2,500
Contractor Reimbursables			$2,500	**$2,500**	$1,250
RRG Fees			$24,754	**$24,754**	$12,377
Architect Fees			$59,250	**$59,250**	$29,625
Contractor Fees			$15,000	**$15,000**	$7,500
Legal			$12,500	**$12,500**	$6,250
Contingencies			$58,279	**$58,279**	$29,140
Development Fee			$13,002	**$13,002**	$6,501
Mobilization Fees			$25,000	**$25,000**	$12,500
RRG Overhead Expenses			$45,302	**$45,302**	$22,651
Total Invoiced	**$48,640**	**$31,641**	**$273,031**	**$353,311**	**$136,516**
TOTAL PAID	**$48,640**	**$30,236**	**$273,031**	**$351,906**	**$0**

NOTE: The $1,405 difference between total RRG invoiced amounts and total MDET paid amounts is due to charges not paid by MDET invoiced under RRG Invoice #2.

[2] Questioned costs are expenditures that do not comply with legal, regulatory or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Offset, waiver, recovery of funds, or the provision of supporting documentation may remedy questioned costs.

MDET's invoice to Transit, dated June 1, 2006, totaling $136,515, lacks adequate documentation to support the costs purportedly incurred by RRG that would justify its reimbursement by Transit. MDET's support for its invoice to Transit was RRG's Invoice #3, which totaled $273,031, which was also dated June 1, 2006. That invoice also lacks adequate documentation to support the costs purportedly incurred that would justify its payment by MDET.

RRG's Invoices #1 and #2, as submitted to MDET, are similarly beset by the lack of adequate support justifying their payments. Accordingly, the OIG also considers the invoiced amounts of $48,640 (Invoice #1) and $31,641 (Invoice #2) as questioned costs. In total, our questioned costs amount to $353,311. Without adequate supporting documentation or an "audit trail," OIG auditors could not validate that any of the charges shown on the invoices were allowable and consistent with the agreed-upon work scopes, schedules and other contract requirements.

Adequate documentation means verifiable support of both the cost and date of services performed and the nature of the actual services performed. RRG did not provide work records identifying the amount of time spent preparing a specified deliverable or working on a specified activity. The records also lacked sufficient information to determine when these services were performed and under what agreement or authorization. In addition, MDET did not always obtain invoices and similar time/work records documenting its subconsultant costs. MDET did not require RRG and its consultants, to document their travel expenses using a "travel expense report" of some form or another. Valid documentation, such as airline tickets, itinerary documentation and receipts for lodging, taxis or special transportation, communications, tolls and car rentals should support all expenses shown thereon. In summary, MDET paid RRG based on what appears to be nothing more than an unspecified passage of time and/or without adequate documentation of work efforts and of reimbursable expenses.

We note that MDET/RRG's agreements between and among themselves and their consultants have almost no documentation requirements imposed on the service provider when it submits a pay requisition. Notwithstanding, MDET, as a public entity charged with safeguarding taxpayer funds, should not have paid RRG based upon the payment requisitions actually submitted. All three[3] invoices submitted by RRG to MDET, for the period covered by our audit, lacked support for the charges that would

[3] There are actually four (4) RRG invoices that we reviewed, including two (2) notated as Invoice #1. RRG submitted its first Invoice #1 for $48,640, for payment and later a different version of Invoice #1 for $39,383, showing a different amount, was attached to the *Letter of Engagement*, dated March 20, 2006, with MDET. (See page 17 for further discussion of this invoice.)

justify their payment. Accordingly, the OIG recommends that Transit not pay MDET until it obtains complete, verifiable support of the charges listed thereon. **[OIG Rec. No. 1]** MDET, having already paid RRG Invoice #3, as well as Invoices #1 and #2, should not pay any future RRG invoices until RRG provides complete, verifiable support of the charges shown on all current and past invoices.[4]

In particular, the OIG recommends that MDET should closely review all RRG reimbursables to ensure their accurate accounting, allowability and reasonableness. **[OIG Rec. No. 2]** For example, RRG's Invoice #1, dated November 1, 2005, totaling $48,640, contains $9,256 of duplicate expenses. We observed that RRG apparently noticed this duplication later and some time afterwards, restated its Invoice #1, with the revised amount of $39,383—RRG's Invoice #1 total less the duplicative expense amount. There is no evidence, however, that RRG ever returned this $9,256 or credited a later invoice for the amount. In addition, we noticed two instances, albeit only totaling $90, when a RRG principal paid for what RRG labels as "Meals and Entertainment" at a restaurant that the principal owns in Atlanta, Georgia, and another $20 for similar expenses at the Doral *Hooters*. In addition, RRG invoiced MDET for other questionable reimbursable expenses, such as for a "condo conversion conference"—three charges totaling $1,196, a subscription to the *South Florida Business Journal* totaling $206, and $85 in annual membership fees for *American Express* ($35) and for the *Latin Builders Association* ($50).

Our understanding is that this Project is at a standstill while federal funding issues are being resolved. During this time, MDET should require that RRG prepare satisfactorily documented pay requisition packages comprised of complete, verifiable support of all RRG Project charges to date that would justify the corresponding MDET payments. Included therein should be a time-phased matching of services and deliverables to invoiced costs, all of which should match contract requirements. After MDET has reviewed and approved the resubmitted payment requisitions, it should forward to Transit only those costs appropriate to its cost allocation agreement.

To help ensure that none of the above-described conditions recurs, the OIG recommends that RRG and MDET should implement payment requisition documentation standards that would ensure that all invoiced costs are valid project costs supported by verifiable documentation. **[OIG Rec. No. 3]**

[4] Subsequent to our audit fieldwork, MDET has made four additional payments to RRG, totaling an additional $148,093. All together, MDET has paid RRG $500,000 for its participation in this Project. This amount is the maximum authorized expenditure amount, pursuant to Trust Board Resolution No. 05-04-2006, approved May 25, 2006.

In addition, the OIG recommends that MDET and Transit review the agreed-upon budget to re-determine whether it reflects appropriate cost items with reasonable amounts. **[OIG Rec. No. 4]** For example, we strongly suggest that the parties re-think the need for a contingency line item totaling $233,116, which we note takes up over 23% of the total budget amount. First, we do not understand why a pre-development budget such as this would even have a contingency line item. Second, we believe that this item is unnecessary, given that the budget already includes $53,200 (5.3% of the total budget) for developer, architect and contractor reimbursables. Furthermore, we question why other budget line items are invoiced as "lump-sum" items, such as legal, and the aforementioned reimbursable expenses.

MDET Selection Process

MDET staff did not comply with Trust Board Resolution No. 05-07-2004, dated May 27, 2004, which required MDET staff to issue a *Joint Development Proposal* (JDP) to members of a "joint developers pool" (Pool) and that a Selection Committee evaluate Pool member responses to the JDP and recommend a joint development award based competitively on a proposal's quality and price. Rather, MDET's President/CEO, in his recommendation memo to the MDET Board, dated November 17, 2005, states that RRG was "chosen" to participate in the Project. We note that the first RRG "proposal" for this Project that we are aware of, was the budget that it formally submitted to MDET, dated March 20, 2006, which MDET, in turn, submitted to Transit on June 1, 2006.

AUDITEE RESPONSES AND OIG REJOINDERS

Our audit report contains four findings and four recommendations. We solicited responses to our Draft Report, dated June 29, 2007, from Miami-Dade Transit, the Miami-Dade Empowerment Trust and Red Rock Global, LLC. All three entities provided responses and they are attached to this report as Appendixes A – C, respectively. MDET's and RRG's responses contained voluminous exhibits that are not attached to this report but are available for viewing by contacting the OIG.

OIG FINDING NO. 1 is that MDET did not comply with its Trust Board Resolution requiring that it award a joint development project based on a competitive selection.

MDET agrees that "While the OIG's conclusion is correct from a technical standpoint, it is a technical infraction and one which would have reached the same inevitable result had a selection process been utilized." MDET's goes on at great length to explain why RRG's selection was "inevitable." The OIG notes that this explanation, to the best of its knowledge, is MDET's first public record of all circumstances surrounding its selection of RRG as its development partner. Had MDET taken this step earlier to disclose to its Trust Board these circumstances, this issue likely would not have ended up as an OIG audit finding.

OIG **FINDINGS NOS. 2 - 4**, are respectively:

1. MDET paid RRG's Invoice #1, dated November 1, 2005, totaling $48,640, including $9,256 of duplicative costs, without adequate support.

2. MDET paid RRG's Invoice #2, dated March 1, 2006, totaling $31,641, without adequate support.

3. MDET paid RRG's Invoice #3, dated June 1, 2006, totaling $273,031, without adequate support; and MDET invoice to Transit, dated June 1, 2006, totaling $136,515 (50% of RRG's Invoice #3) lacked adequate support.

In the immediately preceding **RESULTS SUMMARY** section of this report, the OIG made four recommendations based on these three findings. Collectively, the OIG recommended that Transit not pay MDET's first invoice to Transit and that MDET not pay on any more RRG invoices to MDET until RRG provides proper support for its invoiced costs, and that Transit and MDET should review the support to verify its propriety. In addition, the OIG recommended that Transit and MDET revisit the MDET/RRG proposed budget to re-determine whether it reflects appropriate cost items with reasonable amounts.

Transit agreed with the OIG's recommendations by responding that it will not pay on MDET invoices for work performed prior to the execution of the MOU (January 11, 2006), for those invoices without adequate support justification and for those expenses not clearly identified as Transit-related or as shared joint development expenses. In addition, Transit agreed with the OIG's concerns regarding the Project's contingency budget item and stated that it would meet with MDET to discuss this issue.

MDET, in responding, states that "The MOU required that MDET be able to provide MDT **upon request** [MDET emphasis] all relevant documentation for invoices, costs, expenses, etc. ... No request for back up documentation for invoices or any line item thereon has ever been made by MDT." This is a true statement but it does address the fact that it was the OIG's request for this information that is the basis for these findings and that MDET was unable to provide the required information to the OIG.

Moreover, MDET does not say that it will request that RRG provide this information. However, MDET does state, "At the onset, we note that we have requested from RRG copies of the cancelled checks evidencing their payment of third party invoices (such as the design and architectural firms)." If so, MDET did not satisfy the OIG's request(s). There is an in-house memo referring to this condition, but there is no evidence that MDET ever put its concerns into writing in a formal request for this information to RRG. If we assume, whether formally or informally, that MDET actually made such a request, then it begs the question, why did RRG not respond to the request. Additionally, since there is no evidence to suggest that RRG ever provided the information, we question why MDET continued to pay RRG.

In addition, MDET's response does not address the fact that it over-paid RRG $9,256 for the duplicative expenses invoiced by RRG in its Invoice #1, nor does it address the OIG's recommendation that MDET and Transit revisit the Project budget.

Neither MDET nor RRG meaningfully addresses the OIG issue about the lump-sum payments, as invoiced by MDET to Transit, in particular those amounts for "Contingencies" and "Legal" (services). MDET does state, "The understanding between all parties was that the compensation until such time as a JDA [Joint Development Agreement] was executed was to be a flat amount for fees and, in essence, a cap on reimbursable expenses unless expenses above that amount were specifically approved in writing." MDET appears to misunderstand the OIG's concerns. One concern is that, regardless of the compensation format, whether lump sum or direct labor hours, consultants should be made to provide some form of records documenting their work activities and supporting the amounts invoiced. The OIG believes that there must be consultant accountability demonstrated by records that show that the consultant actually performed some contract work justifying payment.

A second OIG concern is that expenses for contingencies, legal services and travel costs are reimbursable expenses. This means the consultant must support its request for reimbursement with actual bills, invoices, etc. These types of expenses should never be paid as lump-sum items and without any supporting documentation. In particular, the OIG believes that the $233,116 contingencies budget is unnecessary.

RRG does not address these findings or the OIG's recommendations in its response, nor does it volunteer to provide any of the information that MDET and Transit would need to verify the propriety of the invoiced amounts. RRG acknowledges the $9,256 billing error and states that it resubmitted the invoice with the corrected amount and that its Invoice #2 reflects this correction. The OIG notes that a supporting schedule to RRG's Invoice #2 does reflect the corrected amount, but the OIG also notes that RRG does not address or attempt to remedy the fact that it was paid $9,256 twice. The OIG's concern is that RRG kept the excess payment and, apparently, even through the current date, RRG still has not refunded to MDET the $9,256, or has otherwise adequately explained its disposition.

MDET and RRG both address Project deliverables in their responses, although neither address the issues raised by the OIG. To make a point, RRG attached various Project deliverables to its response; all of which the OIG noted during its audit; however, the OIG never questioned whether these were Project deliverables. The OIG questioned when these deliverables were produced, what was the source of their authorization (e.g., a contract, *Letter of Agreement*, oral direction), who from MDET authorized their production and when was this authorization given. We note that RRG acknowledges that as early as April 2005, it was working on this project. Additionally, the OIG questioned how these deliverables related to the charges that RRG billed MDET for in its first three invoices. MDET and RRG did not respond to these specific OIG concerns.

MDET and RRG both address RRG's early work and invoicing. They focus on the terms of their Letter of Engagement, dated March 20, 2006. The OIG had recognized this in the report; however, our expressed concern was how RRG's early work and invoicing related to MDET's agreements with Transit, and thereby Transit's obligation to pay for those earlier costs. Both the MDET/Transit MOU (executed in January 2006) and the MDET/Transit *Letter of Agreement* (executed in July 2006) are framed in prospective terms noting the work to be accomplished and costs to be incurred. Neither agreement addresses past work, past deliverables and past costs.

This timing issue raised another OIG concern about who is responsible for paying RRG's pre-Transit agreement costs. In its response, MDET attaches a spreadsheet showing a breakdown of payments to RRG. This spreadsheet clearly shows MDET charging RRG's earliest invoiced costs from mid-2005 against the *Letter of Agreement*'s attached $996,826 budget that MDT did not formally approve until July 2006. Transit's execution of this agreement also ratified that which MDET proposed therein, "MDET is authorized to commence the Initial Phase of the Project … ." Notwithstanding, MDET, in fact, on its own had commenced this Project phase over one year earlier.

OIG'S JURISDICTIONAL AUTHORITY

In accordance with Section 2-1076 of the Code of Miami-Dade County, the Inspector General has the authority to make investigations of County affairs and the power to review past, present and proposed County and Public Health Trust programs, accounts, records, contracts and transactions. The Inspector General has the power to analyze the need for, and the reasonableness of, proposed change orders. The Inspector General is authorized to conduct any reviews, audits, inspections, investigations or analyses relating to departments, offices, boards, activities, programs and agencies of the County and the Public Health Trust.

The Inspector General may, on a random basis, perform audits, inspections and reviews of all County contracts. The Inspector General shall have the power to audit, investigate, monitor, oversee, inspect and review the operations, activities and performance and procurement process including, but not limited to, project design, establishment of bid specifications, bid submittals, activities of the contractor and its officers, agents and employees, lobbyists, and of County staff and elected officials in order to ensure compliance with contract specifications and detect corruption and fraud.

The Inspector General shall have the power to review and investigate any citizen's complaints regarding County or Public Health Trust projects, programs, contracts or transactions. The Inspector General may exercise any of the powers contained in Section 2-1076, upon his or her own initiative.

The Inspector General shall have the power to require reports from the Mayor, County Commissioners, County Manager, County agencies and instrumentalities, County officers and employees and the Public Health Trust and its officers and employees regarding any matter within the jurisdiction of the Inspector General.

OBJECTIVES, SCOPE AND METHODOLOGY

This audit is in response to Transit's request that the OIG verify that MDET adequately documented its invoiced costs to Transit with proper records supporting the accuracy, completeness and existence of the charges reflected thereon, and that all such charges are allowable under Agreement terms, conditions and other applicable guidance. In addition, the OIG reviewed MDET's solicitation and selection activities culminating with its designation of Red Rock Global, LLC, as its development partner for this Project.

We examined all MDET records relating to the Project, including MDET Board Resolutions, Selection Committee records, correspondence, invoices, deliverables, etc. We interviewed Transit and MDET personnel to gain an understanding of the Project history and its present status, as well as a briefing on the negotiations that have transpired between the two parties.

PROJECT AND AGREEMENT BACKGROUND

Miami Dade Empowerment Trust [5]

According to its website, the Miami-Dade Empowerment Trust, LLC (the Trust), a non-profit organization, was established in February 1999, and delegated the authority to govern, direct and implement the EZ (Empowerment Zone) Strategic Plan and to create and expand business opportunities in the EZ. The premise of the EZ program is that conditions of poverty can be overcome and a market economy can be built through new investment in economic opportunities for people. As a result, the activities of the Trust are geared toward developing a strategic vision that leads to creating economic opportunities and building sustainable communities.

The Trust is structured to promote comprehensive community development in nine (9) targeted communities and three developable sites within Miami- Dade County. The Trust is led by a 19-member Board of Directors that is representative of the entire EZ community. Combined, the Board and staff work to facilitate neighborhood residential planning and leadership, to promote comprehensive community development, and to expand business opportunities in areas that fall within the boundaries of the EZ.

Red Rock Global [6]

According to its website, RRG is a full-service, commercial real estate company focused on mixed-use development projects and superior quality transaction management services. RRG was founded in 2001 and, at the time of its selection to be MDET's joint development partner, was acting as the lead developer in almost $85 million of committed project development projects. RRG had six employees at that time and used, as needed, the services of outsourced consultants and subcontractors. RRG had served clients in Atlanta, Miami, Cincinnati and in New York and New Jersey metropolitan areas. RRG's local development partner in Miami was TÉJA & Associates, Inc., Alben K. Duffie, President.

[5] Taken from MDET's website. See www.ezonetrust.org for more information.
[6] See RRG's website www.redrockglobal.net for more information.

Other MDET / RRG Business

The 7th Avenue Transit Village Project is not the only County[7] project that RRG is involved in. Other MDET involvement with RRG includes RRG's participation in a South Dade/Homestead vicinity housing construction project as the master developer, pursuant to an agreement dated December 8, 2003, with an agreed-upon compensation to RRG totaling $500,000. This project, however, was stopped in early 2007. According to a MDET *Progress/Activity Report* dated February 6, 2007, "due to unforeseen substantial rises in land costs, construction costs, lack of funding, and other obstacles that needed to be overcome prior to development, the project reached a stalemate." MDET also states in that report that "the impasse of the project is not a reflection of RRG's performance or deliverables. RRG met all obligations requested of them during the contract period." RRG was paid $104,575 for its part in this project ($70,367 for its administrative costs and overhead, and $34,208 for property acquisition related expenses) before the project was halted.

In addition, MDET loaned RRG $300,000 in April 2004. In June 2006, MDET restructured this loan to extend the "interest only" payment period for an additional year but did not extend the final payment date of May 11, 2011. Certain evidence obtained by the OIG during the course of this audit shows that, as of September 30, 2006, this loan was past due. This OIG audit did not review either of these two items, although we obtained some records of them during the normal course of the audit. The OIG intends to further review and investigate, as deemed necessary, MDET's relationship with RRG.

Auditee Responses/OIG Rejoinder

MDET, in general states, "The inclusion of this information is prejudicial to the MDET." Regarding the loan specifically, MDET states, "We submit, however, that when all the relevant facts and circumstances are reviewed it will become clear that RRG is not in reality in aggregate arrears to the MDET."

RRG first describes why it objects to the OIG's statement that "compensation to RRG totaling $500,000" mischaracterized RRG's agreement with MDET for this project. RRG goes on to say that the agreement provides that "the maximum amount payable for services rendered under this [SW Homestead] Agreement for year one, shall not

[7] RRG is also a developer to the Miami-Dade Housing Agency (MDHA) Development Corporation for 56 infill parcels. RRG may also have had or has an engagement with the Miami Parking Authority.

exceed Five Hundred Thousand Dollars ($500,000) for the predevelopment costs associated with the development of affordable single and multi family homes … ." Our review of this Agreement's attached budget shows that the $500,000 was to pay RRG primarily for its professional services, or those of its subconsultants, if any; thus the basis for our terminology "compensation to RRG totaling $500,000."

Regarding its loan, RRG states "it has brought its loan payments current."

The OIG has not verified one way or another, the facts behind either of the two statements regarding the current status of RRG's loan.

Transit and MDET

As we mentioned earlier, the Transit/MDET *Letter of Agreement*, dated June 1, 2006, contained a cost sharing allocation. MDET proposed that:

(1) Transit would reimburse MDET for 100% of all costs and expenses related to any Transit improvements,
(2) MDET would pay, on its own, 100% of all costs and expenses related to any joint development improvements, and
(3) MTA and MDET would each be responsible for paying 50% of the costs and expenses for any improvements that will serve both the Transit portion and the joint development portion of the project.

In addition to this agreement and dated June 1, 2006, was MDET's invoice to Transit for costs/ expenses totaling $136,515.[8] This invoice is the first invoice that MDET submitted to Transit and it represents exactly 50% of the costs that RRG invoiced to MDET via its Invoice #3 for $237,031, which is also dated June 1, 2006. (ATTACHMENT 1; see also page 21 of this report for a side-by-side comparison of the two invoices.) Among other issues, as described later in this report, is that MDET's invoice did not include a period of performance, during which the listed costs/expenses were incurred. Transit has not paid MDET on this invoice, pending the OIG's audit.

[8] While the invoice to Transit is dated June 1, 2006, the OIG was unable to ascertain through a conformed copy the date that Transit actually received this invoice. The Letter of Agreement is also dated June 1, 2006, but the signed copy shows Transit executing the agreement on July 31, 2006.

MDET and Red Rock Global, LLC

Prior to the December 2005 BCC action, MDET had taken steps to establish a pool of developers willing to participate with MDET in future but, as yet, unnamed development projects, including issuing a RFQ to developers[9]. MDET received seven responses and, after evaluating the responses, selected three developers for its pool. MDET, sometime after it established the pool, chose Red Rock Global, LLC (RRG) from the pool to participate in a joint venture to develop this particular Transit Village Project. Although we are unaware of RRG's actual selection date, MDET's Board of Directors (MDET Board) authorized this joint venture and related pre-development expenses of $50,000 under Resolution No. 11-04-2005, approved November 17, 2005.

In this Resolution, the MDET Board announced that RRG was the chosen developer with whom MDET would be establishing a limited liability corporation, the MLK Transit Village, LLC (later MDET Board resolutions referred to the 7th Avenue Transit Village, LLC.). MDET stated that it chose RRG "because of [RRG] staff experience with developing Transit oriented developments in the city of Atlanta." The MDET Board later increased the originally authorized $50,000 pre-development expenditure limit to $500,000 under Resolution No. 05-04-2006, approved on May 25, 2006.

RRG has submitted three invoices (through June 1, 2006) to MDET. RRG submitted its Invoice #1, totaling $48,640, dated November 1, 2005, to MDET requesting payment for its costs and reimbursable expenses incurred between June and September 2005 for its work on the MLK Transit Village.[10] (ATTACHMENT 2) RRG submitted its Invoice #2, totaling $31,641, dated March 1, 2006, to MDET requesting payment for its costs and reimbursable expenses incurred between October 2005 and February 2006 for its work on the Project.[11] (ATTACHMENT 2) RRG submitted its Invoice #3, totaling $273,031, dated June 1, 2006, to MDET requesting payment for its costs and reimbursable expenses. RRG did not state a period of performance on this invoice, although some expenses/costs appear to date from as early as June 2005. (ATTACHMENT 1)

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[9] MDET Board Resolution No. 05-07-2004 authorized the release of a *Request for Qualifications* (RFQ) to interested parties for consideration to participate in a joint venture developers pool for non-recurring development projects. MDET issued RFQ #001EZ-05-04 and, after a Selection Committee review, three firms—the Redevco Corporation, the Housing Trust Group and Red Rock Global, LLC—were approved for participation in the joint developers pool (MDET Trust Board Resolution No. 12-09-2004).

[10] Paid by County check #01760908, dated December 28, 2005.

[11] Paid by County check #01847261, dated June 6, 2006, totaling $20,760 and check #01866055, dated July 5, 2006, totaling $9,476.

Subsequent to the second RRG invoice, MDET and RRG executed a Letter of Engagement, dated March 20, 2006, that formally designates RRG as MDET's "Development Partner." Pursuant to the agreement, the effective date of the engagement was established as January 1, 2006. In addition, the parties discuss scopes of services and the types of costs/expenses that MDET will pay RRG for during the Project's "Pre-development" or "Planning" Phase. Also discussed are "engagement services" during what is referred to as the Project's "Initial Phase."

RRG proposed a Project financial plan, on March 20, 2006, when it presented MDET with a budget totaling $996,826 for estimated costs throughout the Initial Phase, inclusive of design, construction and development services through Schematic Design. (ATTACHMENT 1) Attached to RRG's budget proposal were letter proposals from RRG's key subconsultants—Beauchamp Construction Company (March 6, 2006), and Perez and Perez Architects Planners, Inc. (March 7, 2006), along with its two subconsultants, HOK, Inc. (March 7, 2006) and Tim Haahs (February 24, 2006). MDET included these documents with its *Letter of Agreement*, dated June 1, 2006, that it later submitted to Transit.

Supplementing the *Letter of Agreement* is the *7th Avenue Transit Village Pre-JDA Project Schedule*. RRG states in the accompanying memo, "that approximately four (4) months will be required in order to finalize the project scope and vision and to advance the project through the Schematic Design Phase." This schedule shows the start of RRG's engagement as March 22, 2006 and that the "[Joint] Development Agreement Execution/JDA Approved" is targeted for September 28, 2006. In addition, the schedule shows a *Notice to Proceed* to RRG on April 20, 2006. In fact, MDET authorizes RRG, via a formal *Notice to Proceed*, dated April 10, 2006, to start initial services during the Project's "predevelopment phase" and to engage several key vendors to "fast-track" this phase.

Our review of these documents and their scopes reveal that RRG and MDET use the terms pre-development, planning, initial phase and engagement services distinctly in separate documents, proposals and budgets. However, in actuality the terms refer to the same work scopes and/or services to be provided prior to the execution of the Joint Development Agreement (JDA). Moreover, there does not seem to be an actual Project starting point. There is a definite start point of March 22, 2006, as defined in the Project schedule; however, significant Project activities—that were compensated—began as early as June 2005, before any apparent agreement.

OIG AUDIT FINDINGS

The following tracks four findings in chronological order from procurement to the third invoice. The invoice received by Transit seeking 50% reimbursement is discussed in Finding No. 4.

FINDING NO. 1 **MDET did not comply with its Trust Board Resolution requiring that it award a joint development project based on a competitive selection**

The MDET Board (Trust Board) approved Resolution No. 11-04-2005, on November 17, 2005. This Resolution authorized MDET to establish a public/private joint venture with Red Rock using a limited liability corporation—*MLK Transit Village, LLC*—as the legal entity for the development of the MLK Transit Village Project and authorized pre-development expenses in the amount of $50,000.[12] The Project will be a comprehensive, mixed-use development that includes Transit's participation. The recommendation memo accompanying the item stated that, "Red Rock Global has been chosen from the Pool because of staff experience with developing Transit oriented developments in the city of Atlanta."

The aforementioned recommendation memorandum stated that RRG was "chosen" to participate in the Project. This appears to be non-conforming with the earlier MDET Board Resolution No. 05-07-2004. The 2004 resolution required that MDET issue a *Joint Development Proposal* (JDP) to members of a "joint developers pool" (Pool) and that a Selection Committee evaluate their responses. The Selection Committee would thereafter recommend a joint development award competitively based on a proposal's quality and price. MDET records provided to the OIG do not include a Project JDP or Selection Committee recommendation for the 7th Avenue Transit Village Project.

In addition, the MDET President/CEO mentioned that the basis of the award to RRG was because of its "staff experience with developing transit oriented developments." Notwithstanding his statement, conspicuously absent from his *Background of Red Rock Global of Florida* and in his *Red Rock Global, LLC (Parent Company)* write-ups that accompanied Resolution No. 11-04-2005 was any detail of what this "staff experience" actually was. Neither of these write-ups specifically identified any participation by either entity in any transit-oriented development project. Moreover, the President/CEO did not name the RRG "staff" possessing such experience in his *Red Rock Global, LLC Professional Support* write-up that included biographies of RRG's two principals;

[12] A later MDET Board Resolution No. 05-04-2006, dated May 25, 2006, refers to the *7th Avenue Transit Village Project, LLC* and raises the authorized expenditure limit to $500,000.

neither of whom had any transit-oriented development experiences attributed to them in the biographies.

In response to an OIG request for additional information, the MDET President/CEO provided an undated "corporate biography" of a RRG individual listed as a "Project Manager." This individual was credited with working on Atlanta's *Lindberg Transit Oriented Development* and is attributed with having been responsible for $103 million in development and project management activities. However, this individual's biography does not name his employer at that time he worked on the Atlanta project or when this individual worked on the Atlanta project or for how long the individual worked on the project. We do know that RRG did not list this individual as "key personnel" in its proposal responding to the earlier mentioned MDET RFQ to become a Pool member. In addition, as stated above, this individual, with his Atlanta transit experience, was not mentioned in any of the write-ups presented to the Trust Board.

FINDING NO. 2 **MDET paid RRG's Invoice #1, dated November 1, 2005, totaling $48,640, including $9,256 of duplicative costs, without adequate support**

RRG's Invoice #1, dated November 1, 2005, totaling $48,640, lacks adequate support justifying its payment. The invoice does not have a stated period of performance; however, the attached support indicates that the invoiced amounts are for services and reimbursable expenses incurred from June to September 2005. The invoiced amount includes $9,256 of duplicate charges for reimbursable expenses. In addition, RRG's invoice shows $70,302 of "Deferred Expenses" for "Deferred Mobilization Fee" ($25,000) and "Deferred Development Overhead & Development Fee" ($45,302), but then deducts the amounts from the invoice total.[13] (ATTACHMENT 2)

We note that MDET had not received its Trust Board authorization for this Project and for the expenditure of funds until November 17, 2005. Thus, on this basis alone, we question the invoiced costs for the period June – September 2005 for the lack of proper Trust Board authorization.

HOK

In part, the $27,793 HOK invoiced amount is supported by a HOK proposal, dated September 26, 2005, valued at $18,949. This proposal is for "Planning Services – MLK Transit Village Project & Carver Theater Renderings/ Revisions" and expresses HOK's intent "to continue to provide professional planning services . . . These tasks

[13] RRG eventually billed MDET for these costs in its Invoice #3, dated June 1, 2006.

reflect only that work required to prepare the initial site capacity studies suitable for your marketing of the sites to potential development partners and the City of Miami." The specific tasks were (1) to prepare a MLK Transit alternative plan study and graphics, (2) to continue to develop a Carver Theater plan study and graphics, and (3) to prepare street-level perspective renderings. In addition, the proposal allowed HOK to invoice for specified reimbursable expenses, such as telephone, postage, travel, reproductions and the like.

The remaining HOK amount, totaling $8,844.03, are fees for professional services from an unstated beginning date through September 16, 2005 ($8,075.00) and reimbursable expenses ($769.03). HOK invoice notations indicate that it performed unspecified and otherwise undocumented services pursuant to some other agreement with RRG—other than the September 26, 2005 proposal mentioned above. The HOK reimbursables are supported by a vendor invoice and an expense report, with receipts and are notated as related to the Project.

MDET files contain HOK-prepared renderings, other drawings and the like, but it is uncertain when such work was performed and whether those deliverables were those that are the basis for MDET's authorizing payment to HOK (via RRG). In addition, OIG auditors are uncertain as to what "Professional Services through September 16, 2005" entailed and how might have these services been performed relative to other HOK services performed under other agreements, etc. In addition, HOK's services and incurred expenses predated MDET's Trust Board Resolution that was approved November 17, 2005, authorizing the Project and expenditures up to $50,000.

RRG

RRG's "Reimbursable Expenses" total $20,847, out of which $9,256 are duplicate charges. The attached support is nothing more than RRG's American Express *Business Gold Card* monthly invoices for June through September 2005, with certain charges circled or highlighted. Auditors matched circled amounts to invoiced amounts, which, in turn, matched amounts that MDET approved for payment. However, RRG did not submit expense reports, or any other organized compilation similar to an expense report. Such a report would show the names of the individuals incurring the charges, the nature/purpose of the trip and expense amounts. The report would compile the collective charges on a trip-by-trip/daily basis into a usable format. Moreover, there are no receipts for reimbursable expenses, such as airfares, auto rentals, meals, entertainment, etc.

Without any expense report or other compilation form, we question MDET's ability to verify the appropriateness of the charges. OIG auditors, having entered all the charges and their associated descriptions into a spreadsheet that can sorted, found it extremely difficult to match up an individual's trip dates (when available, which often they were not) with corresponding airfares, lodging and meal charges, and other trip-related charges.

Moreover, Invoice #1 contained $9,256 of duplicate reimbursable expenses. While RRG later prepared a revised Invoice #1[14] bearing the date of **November 15, 2005** for **$39,383**, MDET paid the original Invoice #1's full $48,640 via County check dated December 28, 2005.

While there is no indication that the revised Invoice #1 was ever formally re-submitted to MDET, RRG did include this version in its March 20, 2006, *Letter of Engagement* with MDET as "Exhibit C." As previously mentioned, MDET paid RRG the full amount of $48,640 based on the first invoice. There is no evidence to support that RRG has ever returned the $9,256 to MDET (or credited a later invoice for the amount).

FINDING NO. 3 — MDET paid RRG's Invoice #2, dated March 1, 2006, totaling $31,641, without adequate support

RRG's Invoice #2, dated March 1, 2006, totaling $31,641, is for HOK design services and reimbursable expenses from August to December 2005 and RRG reimbursable expenses from October 2005 to February 2006. It, too, lacks adequate support justifying its payment. MDET paid this invoice with two checks. The first check was for that portion of the invoice related to HOK design services, totaling $20,760. The second check was that portion of the invoice related to RRG reimbursable expenses, totaling $10,881, although MDET only paid $9,476 of this amount. There is an unpaid balance totaling $1,405.07, however, it is unclear which expenses MDET did not pay. (ATTACHMENT 2)

Unlike the HOK amounts included in Invoice #1, these HOK amounts were supported by system-generated reports showing payroll hours and rates supported by detailed timesheets for the billed individuals; other system-generated cost records for in-house costs; and an expense report. RRG's notation on its invoice would indicate that this recent HOK billing is a continuation of the earlier mentioned agreement, dated September 26, 2005, for $18,949; although there is no executed agreement or other

[14] While we refer to this invoice as "revised," there is nothing on the face of the November 15, 2005 invoice stating that it is a revised version of the November 1, 2005 invoice.

record between HOK and RRG providing for this service continuation and additional costs in MDET files.

As with Invoice #1, attached support for RRG's reimbursable expenses is nothing more than RRG's American Express *Business Gold Card* monthly invoices for October 2005 through February 2006, with certain charges circled or highlighted. In this case, however, auditors could not match the highlighted amounts to invoiced amounts nor could auditors determine how MDET arrived at the amount that it paid for RRG's reimbursable expenses. Again, RRG did not organize any of these charges in a compilation similar to an expense report, which would show the names of the individuals incurring the charges, the nature/purpose of the trip and expenses, and compiling into a usable format the collective charges on a trip-by-trip/daily basis. Again, there were no receipts for airfares, auto rentals, meals, entertainment, etc.

As with Finding No. 2, we note that some of these invoiced costs were incurred prior to the date that MDET received its Trust Board authorization for this Project and for the expenditure of funds—November 17, 2005. Moreover, when combined with the paid Invoice #1 amount of $48,640, the combined RRG invoiced costs, totaling $80,281, exceeded the Trust Board's authorized expenditure limit of $50,000. Not until May 2006 did the Trust Board increase the authorized expenditure limit to $500,000. Whether for this reason or that it was slow to process and approve this invoice, MDET did not pay RRG on Invoice #2 until June 2006.

FINDING NO. 4 — MDET paid RRG's Invoice #3, dated June 1, 2006, totaling $273,031, without adequate support; and MDET invoice to Transit, dated June 1, 2006, totaling $136,515 (50% of RRG's Invoice #3), lacked adequate support

MDET's invoice to Transit, dated June 1, 2006, totaling $136,515, lacks adequate support to justify its payment and we recommend that Transit not pay this invoice until MDET provides complete, verifiable support of the charges listed thereon.

MDET's support for its invoice to Transit was RRG's Invoice #3, also dated June 1, 2006, totaling $273,031. MDET paid RRG's invoice, but this invoice also lacks adequate support justifying its payment. Accordingly, the OIG considers the invoiced amounts as questioned costs. Moreover, we note that these two invoices are identical in format, notwithstanding that they are represented to be from two separate entities. (See comparison on the next page.) The major difference between the two invoices is

Miami-Dade Empowerment Trust, Inc. INVOICE

3050 Biscayne Blvd. suite 300
Miami, Florida 33137
Phone 305-372-7620 Fax 305-372-7629

DATE: June 1, 2006
INVOICE # 3-MDT
FOR: *Reimbursable Expenses for 7th Avenue Transit Village*

Bill To:
Roosevelt Bradley - Director
Miami-Dade Transit
111 NW 1st Street - 9th floor
Miami, Florida 33128
(305) 375-2597

DESCRIPTION		AMOUNT
Overhead Expenses (50%)		
Developer Overhead		12,377.00
Contractor Fees		7,500.00
Architect Fees		29,625.00
Legal		6,250.00
Contingencies		29,139.50
Reimbursable Expenses (50%)		
Developer Reimbursable Expenses		2,900.00
Contractor Reimbursable Expenses		1,250.00
Architect Reimbursable Expenses		2,500.00
Deferred Expenses (50%)		
Mobilization Fees		12,500.00
Overhead Expense - Invoice 1		22,651.00
Design Services - HOK		3,322.18
	Invoice Subtotal	130,014.68
Development Fee (50%)	5%	6,500.73
	TOTAL	$ 136,515.41

Red Rock Global, LLC INVOICE

6013 NW. 7th Avenue, 2nd Floor Rear
Miami, Florida 33127
Phone 305-567-0922 Fax 305-567-0923

DATE: June 1, 2006
INVOICE # 3
FOR: *Reimbursable Expenses for 7th Avenue Transit Village*

Bill To:
Aundra Wallace - Executive Director
Miami-Dade Empowerment Trust
3050 Biscayne Boulevard, Suite 300
Miami, Florida 33137
(305) 372-7620

DESCRIPTION		AMOUNT
Overhead Expenses		
Developer Overhead		24,754.00
Contractor Fees		15,000.00
Architect Fees		59,250.00
Legal		12,500.00
Contingencies		58,279.00
Reimbursable Expenses		
Developer Reimbursable Expenses		5,800.00
Contractor Reimbursable Expenses		2,500.00
Architect Reimbursable Expenses		5,000.00
Deferred Expenses		
Mobilization Fees		25,000.00
Overhead Expense - Invoice 1		45,302.00
Design Services - HOK		6,644.35
	Invoice Subtotal	260,029.35
Development Fee	5%	13,001.47
	TOTAL	$ 273,030.82

that Transit's invoice is half as much as RRG's invoice to MDET. Each line item was reduced by 50 percent. This reduction would reflect the 50-50 cost allocation pursuant to the terms of the MDET/ Transit, *Letter of Agreement*, dated June 1, 2006, where improvements serve both the Transit portion and joint development portion of the project.

As support for the invoiced charges, MDET provided copies of the consulting agreements showing a contractual basis for the expenditure of funds. These documents, however, do not provide sufficient support to justify actually approving and paying the requested amounts. MDET did not attach any support, except partially for one charge, showing that RRG and its consultants provided any of the promised services or deliverables during the period of performance, which was unstated on this particular invoice.

While at MDET's offices, OIG auditors noted the same problematic condition related to RRG's invoice to MDET—that RRG did not provide adequate authoritative support documenting its services, and those of its subconsultants, which would entitle them to compensation.

The one bit of partial documentation is a "draft" invoice on non-letterhead, plain paper from HOK, a RRG subconsultant, showing the hourly rates and staff work hours worked for certain individuals and reimbursable expenses from January and February 2006. RRG labels this amount as "Deferred Expenses – HOK." Although this support is better than no support at all, it is still insufficient because RRG did not provide a way to relate the work hours shown to the actual performance of any work activity required by the agreement. In addition, we note that the subconsultant's work preceded, by four months, the June 1, 2006 *Letter of Agreement*—which was not executed by Transit until two months later on July 31, 2006. Rather, MDET, in the aforementioned agreement, implies that Transit had already issued a *Notice to Proceed* and that MDET was merely seeking Transit's confirmation for MDET to continue with Initial Phase activities.

> MDET has advised MDT that it is relying upon MDT's agreement to make the forgoing reimbursements [RRG Invoice #3], and that **MDET would not otherwise proceed with the Initial Phase** of the Project without this binding commitment from MDT. (OIG added emphasis)

However the language of the agreement, there are no other records supporting that Transit ever issued a formal *Notice to Proceed* to MDET authorizing it to commence work on this Project.

As a matter of good business practice, MDET should require that consultants provide documentation both of the cost of services performed and of the actual services performed. Consultants should be made to list meetings that they attended with attached minutes, expense reports with attached receipts, work records identifying time spent preparing a specified deliverable or working on a specified activity and some indication of when these services were performed. An invoice and similar time records should support subconsultant costs.

Lump-Sum Line Items

The invoice amounts are, for the most part, a pro-rata allocation of a $996,826 Project budget that MDET attached to its Transit invoice.[15] (ATTACHMENT 1) For seven (7) separate budgeted line items, RRG invoiced exactly 25% of the approved budget for that line item. For example, RRG invoiced 25% of the line item budget for the categories of Developer Overhead, Developer Reimbursables, Architect Fees, Architect Reimbursables,[16] Contractor Reimbursables, Legal, and Contingencies. This percentage corresponds to a monthly payment of one-fourth of the budgeted funds over the 4-month duration for this Project stage. MDET, in turn, invoiced Transit 50% of the RRG invoiced amounts, pursuant to the 50-50 cost allocation with Transit. This allocation assumes that the charges and costs incurred were both for the benefit of the Transit portion of the Project, as well as the joint development component.

RRG's "Overhead Expenses," comprised of its professional service fees and those of its consultants, lack any authoritative support for their payment. As mentioned above, the billed amount is 25% of the approved budget. That these fees are percentages of lump sums or other pre-approved monthly amounts does not diminish the need for the consultant to provide authoritative support. At a minimum, the invoice should state the period of performance that the charge covers. In this case, the period of performance is left unsaid. There are no notations indicating what was done, what meetings were attended and what services were performed. We reiterate that a consultant should be made to provide sufficient information of its work efforts and deliverables to allow

[15] This budget is similar to the budget that MDET attached to its June 1, 2006 confirmation letter to Transit, except that it reflects a reallocation of $108,000 from "Survey/Appraisal" to "Contingencies." The "invoice" budget is identical to the budget RRG submitted to MDET with its March 20, 2006 budget proposal letter. See later discussion.

[16] These Architect Fees and Reimbursables would appear to be separate and distinct from those invoiced by RRG in Invoices 1 and 2, as the budget was submitted contemporaneous with Invoice #3. However, the actual description of the scopes of work to be performed by the Architect at this phase of the pre-development should cause one to question how the scopes of work would be different than the renderings and schematic designs submitted by HOK.

better monitoring of its performance and evaluation of whether there has been value received/services provided commensurate with the payment requested.

We are not stating that RRG and its subconsultants did nothing to earn the amounts invoiced. We acknowledge that the consulting agreements, except for two (the one between MDET and RRG, and the one between RRG and Beauchamp) are "lump-sum" contracts that are typically paid on a percentage of completion basis. However, MDET, as a public entity paying its joint development partner based on what would seem to be nothing more the passage of time and without any supportive documentation, is a questionable business practice.

While many consulting engagements are compensated on a lump-sum basis, it is sill expected that support be provided to show that services performed and deliverables provided during the billing period correspond to the contractual obligations. For example, RRG's agreement with Beauchamp calls for five separate lump-sum monthly payments. However, Beauchamp's invoiced amount is unsupported in any way that would allow for an objective review of the services that it performed and deliverables that it provided during the billing period *vis-à-vis* its contractual obligations. Apart from the minor differences in payment terms among the various agreements, this same practice was followed by RRG and its consultants. It would have been prudent of MDET to require its consultants to provide support affirmatively documenting the services that they performed and that their services directly apply to project tasks and/or to a project deliverable.

This matching process would have been easier if these agreements had a pre-determined method for measuring consultant performance. RRG and its consultants, via their respective consulting agreements, agreed to provide a wide array of services and certain specified deliverables. However, not attached to any of the specific items listed in the various agreements was a quantifiable measurement or "weight" that could be used to gauge consultant progress in completing their scopes of work. Accordingly, RRG's billed amounts correspond only to a percentage of a budget line item amount and the passage of time but they cannot be construed to mean that 25% of the services have been performed and deliverables provided. Given that this Project, even at this relatively early stage, was already slipping off its "fast-track," we believe that the invoiced amounts may not be justifiable.

Additionally, we question how certain line items can ever be treated on a lump-sum basis. The budget contains $50,000 for "Legal." We would agree that legal services would typically be an expense of such a project, but to bill for such services—and to bill at 25%—without any evidence that legal expenses were incurred or legal services were provided is completely improper. Even more so is MDET/RRG's invoicing for

25% of the budget's "Contingencies" budget line item without so much as a shred of evidence that MDET/RRG ever incurred any contingency costs (RRG invoiced MDET for $58,279—MDET paid it—and MDET invoiced Transit for $29,140). We note that the MDET/RRG agreement does not provide for or define "contingency" costs, although there is a budget established for such costs.

As part of this contingency issue, we note that MDET/RRG's original budget included $108,000 for "Survey/Appraisal" and $125,116 for Contingencies.[17] Transit objected to the Survey/Appraisal because Transit would be responsible for these activities. In a revised budget, RRG/MDET reduced this line item to $-0-. However, rather than reducing the entire Project budget by the $108,000, they instead added this amount to the Contingency line item, increasing it to its current amount of $233,116.

MDET/RRG's questionable billing includes amounts for "Reimbursable Expenses." By definition, this would require the consultant to submit proof of an expense showing what the expense was, the amount of the expense and for what purpose was the expense incurred. MDET/RRG, however, submitted their invoices requesting payment for a pro-rata share of the budget amounts for the three categories of developer reimbursables, architect reimbursables and contractor reimbursables. The fact that there are budget amounts for reimbursable expenses does not mean that a consultant has *carte blanche* approval to bill for such expenses without providing any supporting documentation. RRG provided no support—not even a copy of its American Express *Business Gold Card* monthly invoice(s), as it had for its Invoices #1 and #2—for its invoiced amount, nor any support for the *Contractor Reimbursables* or for the *Architect Reimbursables* invoiced amounts. In fact, we note that RRG's agreement with the contractor—Beauchamp Construction—does not describe or otherwise provide compensation to the contractor for reimbursable expenses.

MDET/RRG's invoices also contain amounts labeled as "Deferred Expenses." Specifically, these include "Mobilization Fees" and "Overhead Expense—Invoice 1" and "Design Services—HOK." We note that the Transit-approved Project budget does not include these expenses. Moreover, we note that MDET payment of the $70,302 of "Deferred Expenses" for "Deferred Mobilization Fee" ($25,000) and "Deferred Development Overhead & Development Fee" ($45,302) is provided for under the March 20, 2006 *Letter of Engagement* between RRG and MDET. The agreement states that, "The parties agree that the Trust's payment for those services [the $70,302 of

[17] Included in MDET's files was a RRG proposed budget to MDET that was also dated March 20, 2006, wherein the Project budget was given as $893,221. Apparently, this budget was revised upwards to $996,826. The major difference between the two budgets is that the "accepted" budget Contingencies line item amount was increased by $100,000, from $25,116 to $125,116.

deferred expenses] shall be deferred until a period within fifteen (15) days of the execution of the Joint Development Agreement or the termination of this Engagement, whichever is earlier." Neither of the two described conditions has been met; therefore, we question why RRG invoiced MDET for these costs and why MDET paid them. In addition, we question why MDET ever approved a budget amount for "Mobilization."

Regarding the $6,644 HOK amount, we do not have any documentation describing the services that HOK provided and when it provided them and, therefore, question it too. Lastly, the Transit approved budget shows RRG's "Development Fee" as 3.5% (of the total development budget); however, its invoiced rate is 5%. (ATTACHMENT 1) While the amounts are not significant, we question why the fee increased and who authorized the increase.

We note that MDET/RRG's agreements between and among themselves and consultants have almost no documentation requirements imposed on the service provider when it submits a pay requisition. Notwithstanding, MDET, as a public entity charged with safeguarding taxpayer funds, should not have approved RRG payment requisitions lacking support for the charges that would justify payment thereof.

CONCLUSION

In summary, both RRG's Invoice #3 and, by default, MDET's invoice to Transit, lack adequate support justifying payment and, accordingly, we consider the invoice amounts of $273,031 and $136,516, respectively, as questioned costs. Transit should not pay MDET's invoice until MDET obtains complete, verifiable support of the charges listed thereon. MDET, having already paid RRG Invoice #3, should not pay any future RRG invoices until (1) RRG provides complete, verifiable support of the charges listed on Invoice #3, (2) RRG provides complete, verifiable support of the charges listed on future invoices, and (3) RRG provides complete, verifiable support of the charges listed on its Invoices #s 1 and 2. Regardless of whether RRG continues its participation in this Project resulting in future invoices, MDET should still request that RRG provide complete, verifiable support of the charges listed in all past Project-related invoices.

The OIG requests that **both MDET and Transit each separately provide to the OIG a follow-up report in 90 days, on or before October 31, 2007**, regarding:

- Each agency's efforts to obtain the necessary support documentation to justify payments made, and if necessary—by MDET—to recoup monies paid that lack justification
- The status of the Project, including any modifications to the Project budget
- Any prospective agreements or mutual understandings regarding how payments/reimbursements will be authorized between the parties

The OIG appreciates the cooperation and assistance afforded to us by Transit and MDET personnel involved in our review.

ATTACHMENT 1

RRG Proposed *7th Avenue Transit Village Project Budget to Schematic Design for Phase IA* (dated March 20, 2006); in addition, attachment to June 1, 2006 MDET confirmation letter to Transit				**RRG Revised Project Budget submitted with RRG Inv. #3 and MDET Inv. #3-MDT, both dated June 1, 2006**			**RRG Inv. #3 to MDET, dated June 1, 2006**		**MDET Invoice to Transit, dated June 1, 2006**	
Description	**Amount**	**%**	**Change (NOTE A)**	**Amount**	**%**		**Amount**	**% of Revised Budget**	**Amount**	**% of RRG Invoice**
Developer Overhead	$99,016	9.9%	$0	$99,016	9.9%		$24,754	25.0%	$12,377	50.0%
Developer Reimbursables	$23,200	2.3%	$0	$23,200	2.3%		$5,800	25.0%	$2,900	50.0%
Survey / Appraisal	$108,000	10.8%	($108,000)	$0	0.0%					
Due Diligence (Feasibility, Traffic Study)	$50,000	5.0%	$0	$50,000	5.0%					
Geotechnical Testing	$50,000	5.0%	$0	$50,000	5.0%					
Environmental Testing	$75,000	7.5%	$0	$75,000	7.5%					
Architect Fees (includes consultants)	$237,000	23.8%	$0	$237,000	23.8%		$59,250	25.0%	$29,625	50.0%
Architect Reimbursables	$20,000	2.0%	$0	$20,000	2.0%		$5,000	25.0%	$2,500	50.0%
Contractor Fees	$100,000	10.0%	$0	$100,000	10.0%	**(NOTE B)**	$15,000	15.0%	$7,500	50.0%
Contractor Reimbursables	$10,000	1.0%	$0	$10,000	1.0%		$2,500	25.0%	$1,250	50.0%
MUSP Application	$5,000	0.5%	$0	$5,000	0.5%					
Legal	$50,000	5.0%	$0	$50,000	5.0%		$12,500	25.0%	$6,250	50.0%
Financial Advisor	$10,000	1.0%	$0	$10,000	1.0%					
Contingencies	$125,116	12.6%	$108,000	$233,116	23.4%		$58,279	25.0%	$29,140	50.0%
Development Fee **(invoiced at 5%)**	$34,494	3.5%	$0	$34,494	3.5%		$13,002	37.7%	$6,501	50.0%
TOTAL BUDGET	**$996,826**	**100.0%**	**$0**	**$996,826**	**100.0%**	**Subtotal**	**$196,085**		**$98,043**	
Deferred Expenses									**(NOTE C)**	
Mobilization Fees (*Previously deferred in Invoice #1*)							$25,000		$12,500	50.0%
Overhead Expense (*Previously deferred in Invoice #1*)							$45,302		$22,651	50.0%
Design Services – HOK							$6,644		$3,322	50.0%
						Subtotal	**$76,946**		**$38,473**	
TOTAL							**$273,031**		**$136,516**	

NOTE A: MDET submitted 3/20/06 Budget to MDT; Transit approved except for Survey/Appraisal (S/A); MDET/RRG reduced S/A to $0 and added the $108,000 to Contingencies.

NOTE B: Invoiced amount pursuant to payment schedule contained in RRG's agreement with the Contractor.

NOTE C: Transit "approved" budget did not include any amount for "Deferred Expenses."

ATTACHMENT 2

DESCRIPTION	RRG Inv. #1 Nov. 1, 2005	RRG Inv. #1 Nov. 15, 2005	RRG Inv. #2 Mar. 1, 2006
Deferred Expenses			
Deferred Mobilization Fee	$25,000.00	$25,000.00	
Deferred Development Overhead & *Development* Fee	$45,302.00	$45,302.00	$139,223.45
***Less*: Scope Reduction in Overhead Rate (Previously billed and deferred in Invoice #1)**			($17,457.31)
Design Services -- HOK			
Subtotal Deferred Expenses	**$70,302.00**	**$70,302.00**	**$121,766.14**
Reimbursable Expenses			
Design Services -- HOK Architects	$27,793.18	$27,793.18	$48,553.60
***Less*: Previously Billed Amount in Invoice #1**			($27,793.18)
Subtotal HOK Design Services	**$27,793.18**	**$27,793.18**	**$20,760.42**
Reimbursable Expenses – Red Rock Global (RRG)	$20,846.53		
Reimbursable Expenses – RRG – June 2005		$2,334.01	
Reimbursable Expenses – RRG – July 2005		$4,072.93	
Reimbursable Expenses – RRG – Aug. 2005		$1,913.98	
Reimbursable Expenses – RRG – Sept. 2005		$3,269.35	
Reimbursable Expenses – Oct. 05 to Feb. 06			
Supplies			$217.74
Travel			$7,850.04
Meals & Entertainment			$1,325.93
License & Certifications			$1,487.00
***Subtotal Reimbursable Expenses – RRG* (Note A)**	**$20,846.53**	**$11,590.27**	**$10,880.71**
Total Invoice	$118,941.71	$109,685.45	$153,407.27
Less: Deferred Expenses	($70,302.00)	($70,302.00)	($121,766.14)
Total Invoice Amounts	**$48,640**	**$39,383.45**	**$31,641**
MDET Approved Payment	$48,640		$20,760.42
MDC Check #	1760908		1847261
Check Date	28-Dec-05		6-Jun-06
MDET Approved Payment			$9,475.64
MDC Check #			1866055
Check Date			5-Jul-06
Total Paid	**$48,640**		**$30,236.06**

Note A: $20,846.53 - $11,590.27 = $9,256