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Office of Internal Audit
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TO: Jimmy L. Morales, City Manager 

VIA: Mark D. Coolidge, Interim Internal Auditor 

FROM: Jessica Romero, Auditor 

DATE: September 6, 2019

SUBJECT: **Review of Deco Bike, LLC Compliance with Subsection 10.1.3 of the Concession Agreement**

PERIOD: October 1, 2015 – September 30, 2018 (three complete agreement years)

On July 15, 2009, the City entered into an agreement with Deco Bike, LLC (concessionaire) in response to Request for Proposal No. 44-07/08 for the delivery and operation of a self-service bicycle rental fleet for public use to be stationed in the public rights-of-way. The agreement required the concessionaire to implement a program which enables the public to self-rent bicycles from any or a number of locations and return them to another location, on a 24-hour, 365 day a year basis.

On July 18, 2012, the Mayor and City Commission adopted Resolution No. 2012-27975 (after it became evident to the Administration that without intervention by the City, either through a contract term modification or additional revenue source, the program would not achieve a return of capital or modest profit to the concessionaire or recover the City forgone parking revenues over the long term) accepting the recommendation of the City Manager to amend the agreement, based upon the approved terms, and authorizing the City Manager and the City Attorney's Office to negotiate and draft amendment no. 1 to the agreement. Said amendment was executed by the City and Deco Bike, LLC on December 16, 2013. Among other modifications, this amendment, (1) extended the terms for an additional ten (10) years through September 30, 2023; (2) it increased the bicycle fleet from 900 to 1,100; (3) permitted advertising on the bicycle basket through a Sponsorship Program; (4) approved advertising on designated kiosks; (5) provided for a revenue sharing provision, including a return of capital and the windfall provision; and (6) added subsection 10.1.3 to the agreement (Section 13 of amendment no. 1) detailed below.

In March of 2018, the Parking Department requested that Office of Internal Audit (Internal Audit) staff conduct an audit of the Deco Bike, LLC concession agreement. The scope of the audit was primarily to determine whether the windfall provision had been reached as per the terms of Sections 10 and 11 of amendment no. 1 to the concession agreement. The corresponding audit report was issued on July 18, 2018.

On July 29, 2019, Internal Audit received an additional request from the Parking Department to determine the concessionaire's compliance with Subsection 10.1.3 of the agreement which states *"For the period commencing on October 1, 2012, and ending on September 30, 2013, the concessionaire agrees to expend a minimum of \$300,000 on the repair and/or replacement of bicycles. Thereafter (i.e. commencing on October 1, 2013), the concessionaire shall spend a minimum of \$300,000, annually escalated by three percent (3%), for the repair and replacement*

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of the bicycles serviced each year, based on a useful life expectancy of three (3) to four (4) years per bicycle.”

Internal Audit noted that the terms established in Subsection 10.1.3 did not specify the allowable expenses to be included in the calculation of the annual repair and replacement of the bicycles. Therefore, Internal Audit sought the opinion of the City Attorney's Office to interpret these terms and to clarify which expenses should be included in the benchmark calculation (e.g. bicycle maintenance; depreciation on the bicycles and/or kiosks; purchase and maintenance of the kiosks used to store the bicycles until usage by customers; the purchase price, gasoline and/or repair costs associated with the vehicles used to transport the bicycles; etc.).

An interpretation of Subsection 10.1.3's terms was received from the City Attorney's Office on August 5, 2019 which stated that the terms pertain only to bicycles and not to the kiosks or other equipment; that the costs of repair, maintenance and/or replacement of the bicycles should be included; and lastly, that depreciation expense should be excluded. Given this information, Internal Audit tested the concessionaire's supporting documentation concerning labor expenses as well as the purchases of parts (including shipping fees) and bicycle replacements for the period of October 1, 2015 through September 30, 2018 to determine whether the required benchmarks had been met.

- **Labor:** The concessionaire kept City of Miami Beach payroll costs separate from those associated with the City of Miami due to their different agreement terms. As labor was found to be the largest expense, 100% of the corresponding transactions were reviewed whereby Internal Audit made the determination to:
 - exclude all payroll costs related to customer service, bicycle recovery agents, technical and janitorial functions as they are not directly related to repairs and maintenance.
 - exclude fifty percent (50%) of driver payroll costs since in addition to shuttling bicycles back and forth for maintenance, repair and/or replacement; they simultaneously re-positioned bicycles among the various Miami Beach kiosks.
 - exclude twenty five percent (25%) of the Operations Manager payroll costs since 50% of his time is dedicated to overseeing the bicycle repairs and maintenance functions while the remaining 50% is spent supervising the drivers. Internal Audit calculated the following to be consistent with the above exclusion: ((50% excluded driver payroll costs x 50% of the time spent supervising the drivers) = 25% excluded Operations Manager payroll costs).
- **Bicycle Parts:** The concessionaire allocates 70% of the costs for bicycle parts to the City of Miami Beach and 30% to the City of Miami. Their logic was that bicycles used more frequently would require additional maintenance and repairs, so the allocation percentage was based on the concessionaire's actual bicycle rental revenues generated by each city compared to the total.

To determine the accuracy of the Deco Bike LLC's percentage allocation of the cost of bicycle parts, Internal Audit re-calculated the allocation for twelve (12) months within the audit period using the concessionaire's bank statements. In doing so, it was noted that the actual revenue percentage was higher than 70% for the City of Miami Beach so the allocation was considered reasonable.

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Lastly, a sample of more than 60% of the total amount of bicycle parts purchased each agreement year in the general ledger was selected for analysis. No differences were noted when these transactions were vouched to the supporting invoices and payments.

- **Replacements (New Bicycles Purchased):** Internal Audit reviewed supporting documentation verifying that \$1,000,000 in new bicycles were purchased during the 2014/15 agreement year (outside the stated audit period) for Miami Beach customer usage. Due to this purchase of new bicycles, it was reasonable that the amount expended in parts in the 2015/16 agreement year was lower than the amount expended in the 2017/18 agreement year.

Lastly, all the invoices and payments related to the \$240,000 expended in new bicycles during the 2016/17 agreement year were reviewed with no differences noted.

- **Shipping Costs:** Repair parts are purchased from overseas suppliers are directly associated with the repair and replacement of the bicycles. Internal Audit reviewed more than 60% of each agreement years' total shipping costs and no differences were noted.

The table below summarizes Internal Audit's testing results which showed that the concessionaire has complied with Subsection 10.1.3 of the agreement during October 1, 2015 through September 30, 2018 audit period.

Allowable expenses	Agreement Year		
	2015/16	2016/17	2017/18
1 Replacement Bikes	\$ -	\$ 240,000.00	\$ -
2 Bike Parts	\$ 92,170.12	\$ 88,749.34	\$ 191,866.17
3 Labor- Bike Repair & Maintenance	\$ 202,913.31	\$ 252,081.88	\$ 202,145.88
4 Bike Transportation (50%)	\$ 91,502.08	\$ 72,341.37	\$ 99,373.23
5 Labor- Operations Manager (75%)	\$ 37,256.52	\$ 37,592.49	\$ 39,304.63
6 Shipping	\$ 5,240.05	\$ 9,075.74	\$ 18,750.26
Total	\$ 429,082.08	\$ 699,840.83	\$ 551,440.18
Minimum amount required to be expended per year	\$ 327,818.10	337,652.64	\$ 347,782.22
Difference Over/ (Under)	101,263.98	362,188.19	203,657.96

cc: Eric Carpenter, Assistant City Manager
Saul Frances, Parking Department Director
Laura Franco-Rubines, Assistant Parking Director
Bonifacio Diaz, Owner, Deco Bike LLC