



Follow-up Review of Audit of Property Leases at Port Everglades

Office of the County Auditor

Follow-up Review

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OFFICE OF THE COUNTY AUDITOR

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October 31, 2024

Honorable Mayor and Board of County Commissioners

We have conducted a Follow-up Review of the Audit of Property Leases at Port Everglades (Port) (Report No. 23-14). The objective of our review was to determine the implementation status of our previous recommendations.

We conclude that of the eleven recommendations in the original report, ten recommendations were implemented, and one was partially implemented. We commend management for the implementation of our recommendations. The status of each of our recommendations is presented in this follow-up report.

Please be advised that the information presented herein is not considered an audit in accordance with Generally Accepted Governmental Auditing Standards. Had we conducted an audit, we may have identified additional findings and concerns.

We appreciate the cooperation and assistance provided by Port staff throughout our review process.

Respectfully submitted,

A handwritten signature in blue ink that reads "Bob Melton".

Bob Melton
County Auditor

cc: Monica Cepero, County Administrator
Andrew Meyers, County Attorney
Dr. Kimm Campbell, Deputy County Administrator
Michael Ruiz, Assistant County Administrator
Joseph Morris, Director and CEO, Port Everglades
Glenn Wiltshire, Deputy Director, Port Everglades

Broward County Board of County Commissioners

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IMPLEMENTATION STATUS SUMMARY

Implementation Status of Previous Recommendations From the Audit of Property Leases at Port Everglades

REC. No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1A	We recommended management ensure that an appropriate and consistent methodology is used in the evaluation and determination of rental rates for leases, assuring that the Port derives appropriate rental revenues from its properties. Any business decisions to negotiate rental rates that are below appraised values should be properly justified and documented in writing and include sufficient and appropriate reasons to support basis for such business decisions.	✓			
1B	We recommended management ensure that rental rates are appropriately adjusted annually when lease agreements cover multiple years. Any business decisions not to make an annual adjustment to lease rental rates should be documented in writing and include sufficient and appropriate reasons to support basis for such business decisions.	✓			
1C	We recommended management ensure that month-to-month extensions of expiring/expired lease rental agreements should be documented and approved in writing, with a defined date of expiration, either in the form of amendments/addendums to existing lease agreement or internal memorandums	✓			

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OFI No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
2A	We recommended management develop appropriate written internal methodology, policies, and procedures, regarding the performance of “Market Study” analyses for warehouse leases for properties under 10,000 square feet, to facilitate consistent application and assist the Port staff in establishing rental rates that are adequate and comparable to market rates for similar properties located in areas surrounding the Port.	✓			
2B	We recommended management consider the use of quarterly industrial Market Beat Report published by the real estate services firm Cushman and Wakefield, or other reputable real estate market resources, as part of the “Market Study”.	✓			
2C	We recommended management ensure appropriate and adequate documentation is retained to demonstrate performance of “Market Study” for warehouse leases under 10,000 square feet.	✓			
3	We recommended management develop written Standard Operating Procedures (SOPs) regarding initiation, management, and termination of tenant leases at the Port, especially covering/addressing the above-mentioned areas, to facilitate consistent application and effective administration of tenant leases.	✓			
4	We recommended management develop a process to appropriately track the implementation status of recommendations identified in the Biennial Condition Report of Port Facilities. Such a process should include a reconciliation of work orders performed to address repairs and maintenance recommended in the report.		✓		

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OFI No.	PREVIOUS RECOMMENDATION	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
5	We recommended management continue its efforts to ensure that all grid renewal applications are submitted by grid users for approval not less than two calendar days before the expiration date of the current grid rental period.	✓			
6A	We recommended management revisit and appropriately adjust language in the “Use of Premises” and “Prohibited Use(s) of Premises” sections in any future lease agreements to appropriately reflect tenant’s operations conducted from the leased area.	✓			
6B	We recommended management obtain copies of current financial statements and/or certified tax returns and perform adequate financial review to assess tenant’s credit worthiness (ability to pay), risk of default as required during the lease application process, and determine appropriate amount of security deposit to be collected from the tenant prior to execution of any future lease agreements	✓			

INTRODUCTION

Scope and Methodology

The Office of the County Auditor conducts audits of Broward County's entities, programs, activities, and contractors to provide the Board of County Commissioners, Broward County's residents, County management, and other stakeholders unbiased, timely and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted a Follow-up Review of our Audit of Property Leases at Port Everglades (Port) (Report No. 23-14). The objective of our review was to determine the implementation status of previous recommendations for improvement.

Please be advised that the information presented herein is not considered an audit in accordance with Generally Accepted Governmental Auditing Standards. Had we conducted an audit, we may have identified additional findings and concerns.

Our follow-up review included such tests of records and other review procedures, as we considered necessary in the circumstances. The review period was October 1, 2023, through September 30, 2024. However, transactions, processes, and situations reviewed were not limited by the review period.

Overall Conclusion

We conclude that of the eleven recommendations in the original report, ten recommendations were implemented, and one was partially implemented. The status of each of our recommendations is presented in this follow-up report.

OPPORTUNITIES FOR IMPROVEMENT

This section reports actions taken by management on the Opportunities for Improvement in our previous audit. The issues and recommendations herein are those of the original review, followed by the status of the recommendations.

1. Potential Additional Revenue Could Have Been Derived From a Warehouse Lease at the Port.

During the previous audit, we noted the following issues:

- A. The Port should have used modified gross rates established by the property appraisal for Chiquita Fresh North America LLC's (Chiquita) warehouse lease instead of using the triple net rates, in its evaluation and determination of rental rates in Chiquita's lease agreement, starting in April 2019.
- B. No incremental adjustments were made by the Port staff to Chiquita's lease rental rate of \$10.13/square foot during 2020 and 2021. The Port could have potentially generated additional rental revenue, had appropriate incremental rental rate adjustments been applied to Chiquita's lease rental rates.
- C. Month-to-month lease extension for Chiquita warehouse space was approved without any written documentation to the existing lease agreement. Also, no supporting documentation was available regarding approval of no incremental adjustments to lease rental rate of \$10.13/square foot for the month-to-month lease extension during 2020 and 2021.

Our previous audit also noted that the Board approved Chiquita's new lease agreement at the Port on February 7, 2023. The warehouse rental rate for Year 1 of the new lease agreement (November 1, 2021, to October 31, 2022) was \$13.50/ square foot, which was negotiated based on a new appraisal performed for Chiquita's warehouse space in 2022.

We recommended management ensure that:

- A. Appropriate and consistent methodology is used in the evaluation and determination of rental rates for leases, assuring that the Port derives appropriate rental revenues from its properties. Any business decisions to negotiate rental rates that are below appraised values should be properly justified and documented in writing, and include sufficient and appropriate reasons to support basis for such business decisions.
- B. Rental rates are appropriately adjusted annually when lease agreements cover multiple years. Any business decisions not to make an annual adjustment to lease rental rates should be documented in writing, and include sufficient and appropriate reasons to support basis for such business decisions.
- C. Month-to-month extensions of expiring/expired lease rental agreements should be documented and approved in writing, with a defined date of expiration, either in the form of amendments/addendums to existing lease agreement or internal memorandums.

Implementation Status:

- A. **Implemented.**
- B. **Implemented.**
- C. **Implemented.**

2. Adequate Market Studies Should have been Performed to Compare and Establish Applicable Rental Rates for the Port’s Warehouse Leases Under 10,000 Square Feet.

During the previous audit, we noted that rental rate comparisons performed by the Port staff for warehouse leases under 10,000 square feet, were not adequate to evaluate and determine competitive market rental rates as they did not contain comparisons to warehouse properties that were comparable in condition or quality or reflected market rental rates for similar properties around the Port.

We recommended management:

- A. Develop appropriate written internal methodology, policies, and procedures, regarding the performance of “Market Study” analyses for warehouse leases for properties under 10,000 square feet, to facilitate consistent application and assist the Port staff in establishing rental rates that are adequate and comparable to market rates for similar

properties located in areas surrounding the Port.

- B. Consider the use of quarterly industrial MarketBeat Report published by the real estate services firm Cushman and Wakefield, or other reputable real estate market resources, as part of the “Market Study”.
- C. Ensure appropriate and adequate documentation is retained to demonstrate performance of “Market Study” for warehouse leases under 10,000 square feet.

Implementation Status:

- A. **Implemented.**
- B. **Implemented.**
- C. **Implemented.**

3. Written Standard Operating Procedures Needed to be Developed Regarding Initiation, Management, and Termination of Tenant Leases at the Port.

During the previous audit, we noted that the Port’s Business Development Division did not have written Standard Operating Procedures (SOPs) regarding initiation, management, and termination of tenant leases at the Port.

We recommended management develop written Standard Operating Procedures (SOPs) regarding initiation, management, and termination of tenant leases at the Port, especially covering/addressing the above-mentioned areas, to facilitate consistent application and effective administration of tenant leases.

Implementation Status: Implemented.

4. The Port Needed to Properly Track Implementation Status of Repairs and Maintenance Recommended in Biennial Condition Report of Port Facilities.

During the previous audit, we noted that the Port did not track implementation status of repairs and maintenance to address recommendations contained in the Biennial Condition Report of Port Facilities (Report).

We recommended management develop a process to appropriately track the implementation status of recommendations identified in the Biennial Condition Report of Port Facilities. Such a process should include a reconciliation of work orders performed to address repairs and maintenance recommended in the report.

Implementation Status: Partially Implemented. Based on our discussion with management, currently no process has been developed and applied to track recommendations identified in the latest available version of the Report issued in 2021 (2021 Report). However, management was able to provide examples of work orders performed at Port facilities addressing recommendations identified in the 2021 Report. Management also communicated that they will develop a process to track the implementation status of recommendations identified in Engineering Services for Bond Reporting Report post receipt in Fiscal Year 2025.

5. Renewal Applications for Grid Space Rentals Needed to be Received and Approved Before the Starting Date of the Rental Term.

During the previous audit, we noted that grid renewal applications for four of the ten grid rentals sampled (from the month of January 2022), were received and approved by the Port after the starting date of the grid rental period.

We recommended management continue its efforts to ensure that all grid renewal applications are submitted by grid users for approval not less than two calendar days before the expiration date of the current grid rental period.

Implementation Status: Implemented.

6. Usage of Premises in Lease Agreements Needed to be Appropriately Defined and Tenant Financial Position Needed to be Adequately Reviewed Prior to Execution of New Lease Agreement.

During the previous audit, we noted the following issues:

- A. The new lease agreement beginning May 16, 2022, executed between the Port and Seafarers' Electronics LLC (tenant), for a term of one year, permitted the use of leased area "solely for the purpose of office space and all activities reasonably necessary for such use, including storage of goods." We also noted that prohibited uses of the leased area included "retail sales", which directly contradicted tenant's description of desired operations to be conducted on the leased premises.
- B. No copies of current financial statements and/or certified tax returns were submitted by the tenant with the lease application. Without this information, the Port's Finance Division could not perform required assessments regarding the prospective tenant's credit worthiness (ability to pay) and risk of default. However, we noted that the Port collected advance rent for two months as a security deposit. Through our review of information regarding late rent payments, we noted that this tenant had one instance

where monthly rent was paid after the due date, during the initial eleven-month lease agreement term.

We recommended management:

- A. Revisit and appropriately adjust language in the “Use of Premises” and “Prohibited Use(s) of Premises” sections in any future lease agreements to appropriately reflect tenant’s operations conducted from the leased area.
- B. Obtain copies of current financial statements and/or certified tax returns and perform adequate financial review to assess tenant’s credit worthiness (ability to pay), risk of default as required during the lease application process, and determine appropriate amount of security deposit to be collected from the tenant prior to execution of any future lease agreements.

Implementation Status:

- A. **Implemented.**
- B. **Implemented.**