

City of Miami

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February 27, 2015

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

Re: Audit of the Finance and Information Technology Departments' Controls Over Business Tax Receipts
Audit No. 15-005

Executive Summary

Pursuant to Section 48 of the City of Miami's (City) Charter and the Office of the Independent Auditor General's Fiscal Year 2014/2015 Audit Plan, we have completed an audit of the City's Controls over Business Tax Receipts (BTR) primarily for the period October 1, 2012 through September 30, 2013. This report focused primarily on the Finance Department's (FD) role in the assessment and collection of BTRs, and the Information Technology Department's (ITD) role in the development of the MiamiBiz system. A detailed BTR revenue analysis and review of the monitoring role of the Office of Code Compliance (OCC) to ensure that all Miami businesses possess a valid BTR will also be issued in a separate report later this fiscal year. The financial accounting records maintained by the City's FD disclosed that the City collected approximately \$8.2 million of BTR revenue during the audit period.

The audit was performed to determine compliance with the provisions of Chapter 31 of the City Code, entitled "Local Business Tax Receipts and Miscellaneous Business Regulations" including the assessment/collection of all applicable fees and the internal controls related to the processing of all applicable financial transactions.

Based on the results of our audit, we have concluded that the procedures and internal controls of the BTR process require enhancements due to the following deficiencies:

- 1) BTRs were not consistently and effectively assessed and collected.
- 2) Procedures for BTR renewal & billing delinquency penalties were not properly and accurately applied.
- 3) The FD did not adequately monitor the BTR process.
- 4) BTR exemptions were not properly documented or approved.
- 5) BTR fee discounts available in MiamiBiz exceeded those allowed by the City code and were not captured to provide an audit trail.
- 6) ITD did not adequately monitor the development and performance of the MiamiBiz system.
- 7) The City of Miami and Miami-Dade County utilize inconsistent naming conventions for BTRs resulting in reconciliation difficulties.

The FD and ITD should implement the necessary enhancements to improve operational effectiveness and maximize the City's BTR revenue.

We wish to express our appreciation for the cooperation and courtesies extended to us by all City personnel.

Sincerely,



Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General

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**AUDIT OF CONTROLS OVER BUSINESS TAX RECEIPTS
OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2013
Audit No. 15-005**

TABLE OF CONTENTS

SCOPE, OBJECTIVES, AND METHODOLOGY	1
BACKGROUND	2
AUDIT FINDINGS AND RECOMMENDATIONS	3
FINDING 1: BTR FEES WERE NOT CONSISTENTLY AND ACCURATELY ASSESSED ..	3
FINDING 2: PROCEDURES FOR BTR RENEWALS AND BILLING DELINQUENCY PENALTIES WERE NOT ACCURATELY AND CONSISTENTLY APPLIED	5
FINDING 3: THE FINANCE DEPARTMENT DID NOT ADEQUATELY MONITOR THE BTR PROCESS	7
FINDING 4: BTR EXEMPTIONS WERE NOT PROPERLY DOCUMENTED OR APPROVED	10
FINDING 5: BTR FEE DISCOUNTS AVAILABLE IN MIAMIBIZ EXCEEDED THOSE ALLOWED BY CITY CODE AND WERE NOT CAPTURED TO PROVIDE AN AUDIT TRAIL	11
FINDING 6: INFORMATION TECHNOLOGY DEPARTMENT DID NOT ADEQUATELY MONITOR THE DEVELOPMENT AND PERFORMANCE OF THE MIAMIBIZ SYSTEM	13
FINDING 7: THE CITY OF MIAMI AND MIAMI-DADE COUNTY UTILIZE INCONSISTENT NAMING CONVENTIONS FOR BUSINESS TAX RECEIPTS (BTRs) RESULTING IN RECONCILIATION DIFFICULTIES.....	14

SCOPE, OBJECTIVES, AND METHODOLOGY

This audit was performed pursuant to the authority set forth in Section 48 of the City's Charter entitled, "*Office of Independent Auditor General*" (OIAG), and was conducted in accordance with the OIAG's Fiscal Year 2014/2015 Audit Plan. The scope of the audit included an examination of the controls over Business Tax Receipts (BTR) issued by the City to determine compliance with the provisions of Chapter 31 of the City Code, entitled "Local Business Tax Receipts and Miscellaneous Business Regulations" including the assessment/collection of all applicable fees and the internal controls related to the processing of all applicable financial transactions.

The audit covered the period October 1, 2012 through September 30, 2013, and selected transactions prior and subsequent to this period. In general, the audit focused on the following objectives:

- To determine whether BTRs were issued in compliance with the required policies, codes, statutes and regulations.
- To determine whether the correct fees were collected by the City and deposited timely into the City's treasury accounts.
- To determine whether BTR fee exemptions (waivers) were properly approved and adequate supporting documentation was retained on file.
- To verify whether license renewal due dates were monitored and delinquency penalties assessed on licenses not renewed upon expiration.
- To assess the effectiveness of the internal control system relative to the assessment and collection of BTRs.
- To determine whether the Finance Department (FD) properly monitored businesses operating in the City to ensure they possessed valid BTRs prior to operating in the City.
- To determine whether the Information Technology Department (ITD) adequately monitored the MiamiBiz System.
- Other audit procedures as deemed necessary.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence in order to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit methodology included the following:

- Reviewed applicable Florida Statutes, City resolutions and ordinances, other legislative documents, and City policies and procedures in order to gain an understanding of the internal controls, assess control risk, and plan audit procedures.
- Interviewed and made inquiries of appropriate City personnel; observed control procedures; analyzed BTR data; reviewed BTR applications and payments; and tested compliance with BTR requirements.
- Performed substantive testing consistent with the audit objectives, including but not limited to the examination, on a test basis, of applicable transactions and records.
- Drew conclusions based on the results of the testing, made corresponding recommendations, and obtained auditee responses and corrective action plans.
- Performed other audit procedures as deemed necessary.

BACKGROUND

Section 31-26(a) of the City Code requires new business owners to obtain a Business Tax Receipt (BTR) which must be renewed on or before October 1st of each year. If a business operating within the City does not possess a valid/current BTR, it will be subjected to assessment of penalty fees described in Section 31-39 of the Code.

During the audit period, October 1, 2012 through September 30, 2013, the City billed customers for approximately 23,000 business licenses and collected approximately \$8.2 million of BTR revenue, including penalty fees of \$242,000 and BTR metro revenue from Miami-Dade County of \$546,000.

The Finance Department (FD) has the primary responsibility to ensure that the BTR fees are properly assessed and paid to the City. The Office of Code Compliance (OCC) is responsible for monitoring businesses operating in the City to verify that they possess a valid BTR.

The City's ITD developed and implemented the MiamiBiz software system in order to process BTRs. As such, MiamiBiz interfaces with the City's Oracle Financial Module (Oracle), which generates BTR invoices and records BTR accounts receivables and fees. In order to ensure that BTRs are assigned to correct City addresses, MiamiBiz utilizes Miami-Dade County's (County) geographical information system (GIS) address database. Members of the general public may create user accounts in MiamiBiz in order to initiate the BTR process, but only authorized City employees may complete the processing and issuance of BTRs.

In order to obtain a BTR, business owners (customers) must apply in person at the FD-BTR Section (located in the City's administrative building) or at one of the City's Neighborhood Enhancement Team (NET) offices. Customers can obtain the "Application for Business Tax Receipt" form at the FD-BTR section, NET offices, online, or from OCC Inspectors during site inspections. In addition to completing the application form, businesses are required to comply with other requirements and/or provide additional documentation as necessary.

BTR fees due to the City are based on the type of business conducted (e.g., restaurant, nursing home, manufacturer, etc.) and number of units (e.g., seats, square footage, inventory, etc.). Accordingly, customers must indicate the business-type and number of units (if applicable) on the BTR application; however, since there are a wide variety of business categories, there is a risk that a customer may indicate the incorrect category. In order to mitigate this risk, prior to processing the application, FD-BTR Section employees consult with each customer to ensure that the application is completed correctly and that the correct business category and units are assigned.

AUDIT FINDINGS AND RECOMMENDATIONS

CONCLUSION:

Based on the results of our audit, we have concluded that the procedures and internal controls of the Business Tax Receipts (BTR) process require enhancements. The Finance Department (FD) and Information Technology Department (ITD) should implement these enhancements to improve operational effectiveness and maximize the City's BTR revenue.

Details of our findings and recommendations follow:

FINDING 1: BTR FEES WERE NOT CONSISTENTLY AND ACCURATELY ASSESSED

In order to determine whether the appropriate BTR fees were assessed and collected from businesses operating in the City, we selected a sample of 30 new BTR applicants to determine whether: (1) each business sampled obtained a BTR, (2) the FD-BTR Section assigned each business the correct BTR category/code(s), and (3) the FD billed each business the appropriate amount of BTR fees. Based on our review, we noted deficiencies in three (3) (or 10%) of the selected applicants as follows:

- For one applicant, no BTR application was provided for review; therefore, we were unable to determine whether the correct BTR category/code was assigned and whether the appropriate BTR fees were assessed.
- For one business, the FD incorrectly charged the customer since the total number of seats approved on the Certificate of Use (40 seats) did not match total seats paid for on the BTR (50 seats); additionally, we noted that the BTR application indicated 58 seats.
- For one business, an OCC Inspector overcharged the customer since an incorrect business category was assigned. The fee should have been \$30.50; however, the Inspector collected a total of \$66.50. The overpayment was detected by the FD and was applied to the BTR renewal bill for fiscal year 2013/2014 (FY13/14). We noted that the customer still has a credit on account for \$5.50.

Additionally, we noted that BTR processing for three (3) of the businesses was placed "on-hold" because the businesses did not have a valid CU. We then requested a "BTR Hold Aging" report generated from the MiamiBiz system (dated March 25, 2014) indicating that 7,721 businesses had paid their application fees but the BTRs were on-hold for lack of complete documentation. According to the "Hold Description" field of the report, reasons provided included: "Certificate of Use/Accessory Use Hold" (i.e., either the customer did not possess or did not renew/pay for a CU), "Special Information Hold", "Special and CU Hold", and "Nuisance Abatement Board Suspension".

The deficiencies described above may be partially attributed to the following:

Manual Processing of BTR Applications

All BTR applications are currently completed, reviewed, and processed manually. As a result, there may be errors in the assignment of BTR Categories/Codes and the assessment of BTR fees. The FD website included a portal to MiamiBiz where it appeared that a business could apply for and obtain their BTR. However, according to

the BTR Supervisor, such web-based processing is not currently available to businesses.

Large Number of BTR Categories/Codes and Rates

Based on our review of the City Code, we noted that there are 381 different BTR category codes and 533 different rates for assessing BTR fees to businesses. Therefore, a business engaged in multiple types of business activities must have multiple types of BTRs and pay multiple fees. Consequently, since BTR applications are processed manually as described above, the large number of categories/codes and rates contributes to the risk that City staff may assign the incorrect category/code and collect incorrect BTR fees from businesses.

Lack of Employee Training (Finance, Office of Code Compliance, NET)

FD staff involved with the processing of BTR applications and collection of BTR fees is informally trained by the BTR Supervisor; and there is no formalized system of providing information and training to FD, OCC, and NET staff. In addition, we noted that there is no finalized policies and procedures manual for the BTR process, although we were provided a document in draft form.

RECOMMENDATION 1.1: (FINANCE DEPARTMENT)

In cases wherein BTR payments are accepted, but licenses are not issued (on “hold”) because the customer has not provided required items (e.g. CU, professional license, taxpayer/employer identification number, etc.), we recommend FD consult with ITD in regards to programming MiamiBiz so that pending documentation is listed, printed and provided to the customer subsequent to payment. The pending documentation could be listed in the form of a “pending documentation” receipt/notice that:

- States: “THIS NOTICE IS NOT A VALID LICENSE”
- States that operating without a valid license subjects the business to penalty fees and to OCC inspections, citations, and fines.

FD could also request that the ITD program MiamiBiz to capture salient information on the receipt/notice (e.g. amount paid, payment date, business name, address, pending items) and include it in a “BTR Hold Aging” report described above. MiamiBiz could generate this report periodically so that it could be provided to OCC for “follow-up” inspections. These measures will also reduce the risk that businesses will be operating in the City without valid/renewed licenses.

- **FD Response:** The Finance Department and ITD created a report last year that identifies what licenses were not issued due to the customer not providing the required documentation. Further discussions are taking place with ITD to see if MiamiBiz can capture more relevant information that can be used to generate more detailed reports that will identify what exact documentation is missing. This will assist the Finance Department’s outreach efforts in getting companies into compliance. Furthermore, the BTR supervisor has been tasked with reaching out to customers to attempt to obtain the pending, required information to issue a BTR.
- **Implementation Date:** The Finance Department will meet to discuss with ITD during the second quarter of the fiscal year 2015. Ultimately, implementation will be dependent on the outcome of discussions with ITD.

RECOMMENDATION 1.2: (FINANCE DEPARTMENT)

In order to facilitate greater efficiency and accuracy in BTR processing, we recommend that FD consult with the ITD to explore the possibility of automating the BTR application and renewal process. The convenience of completing the BTR application/renewal online would make the process less time-consuming, less prone to errors and omissions, and could potentially lead to greater compliance and revenue.

- **FD Response:** The Finance Department is continuing its dialogue with ITD to determine what can be done, from a technological standpoint, to automate the process.
- **Implementation Date:** The Finance Department will meet to discuss with ITD during the second quarter of the fiscal year 2015. Ultimately, implementation will be dependent on the outcome of discussions with ITD.

RECOMMENDATION 1.3: (FINANCE DEPARTMENT)

Although any changes to BTR fees would need to be based on recommendations by an Equity Study Commission (with appointed members representative of the business community) and approved by the City Commission, we recommend that FD explore the possibility of simplifying the current BTR categories/codes and rates.

- **FD Response:** The Finance Department has been working with the City Manager's Office to discuss the possibility of simplifying the current BTR Ordinance. The Finance Department will continue to work the CFO, and the Manager's Office in this effort.
- **Implementation Date:** The Finance Department will have further discussions with the CFO and the Manager's Office during the second quarter of the FY 2015 fiscal year.

RECOMMENDATION 1.4: (FINANCE DEPARTMENT)

We recommend that: (1) the "BTR Policies and Procedures Manual" be finalized and approved by FD, (2) all employees involved with the processing of BTRs (FD, OCC, and NET) receive a copy of the manual (and sign for its receipt), and (3) training be periodically provided by the BTR Supervisor so that all staff are able to accurately process BTR applications and collections.

- **FD Response:** The Finance Department will modify and update the existing draft policy to include best practices and recommendations of this audit.
- **Implementation Date:** This should be completed by the end of Fiscal Year 2015. This should allow time for a legal review and for the trainings to take place.

FINDING 2: PROCEDURES FOR BTR RENEWALS AND BILLING DELINQUENCY PENALTIES WERE NOT ACCURATELY AND CONSISTENTLY APPLIED

According to City Code, a BTR shall be procured from the City on/or before October 1st of each year; no BTR shall be issued for more than one year; and BTR fees shall be due and payable on September 30th of each year. Also, since all BTRs expire on September 30th, the FD-Accounts Receivable (FD-A/R) Section starts the renewal process at the end of June so that renewal bills are mailed out no later than 60 days prior to expiration, or July 1st.

In order to determine whether customers were timely notified of BTR renewals and whether all applicable billing delinquency penalties were assessed and collected, we tested the timing of renewal notices and whether: (1) renewal notices included a request for businesses to provide notification of business changes which could affect the amount of the BTR fee assessment, and a notification of applicable penalties for non-compliance; (2) applicable delinquency penalties were assessed and billed (10% for October plus 5% each subsequent month, not to exceed 25% of BTR fee); (3) applicable delinquency penalties were collected; and (4) upon expiration of the penalty period, whether the FD provided OCC with a listing of delinquent businesses so as to facilitate the issuance of violations.

Renewal Notices

We noted that on July 1st the FD timely sent all active customers a BTR renewal notice/invoice and a request to provide notification of business changes. Although these initial notices/invoices did not include a notification of penalties for non-compliance, subsequent past due invoices/dunning letters did advise customers of the additional penalty for non-compliance within 150 days of the initial invoice.

Delinquency Penalties

Based on our review of 60 businesses that did not renew their BTR by 10/1/13, as required, we noted the following exceptions regarding the assessment and collection of delinquency penalties:

- For nine (9) businesses, based on the payment receipt date, the FD did not assess the correct amount of penalties due; most of the penalty fees were under-billed by one month.
- Eight (8) businesses have not paid for the penalties due as of the completion of the test on 6/4/14. For two (2) of these businesses, the additional penalties due were waived due to small outstanding balances.
- Seventeen (17) businesses have not paid BTR renewal fees or penalties totaling \$4,138 for FY13/14 which remained in arrears as of the completion of the test on 6/4/14.

In addition, we made the following observations:

- The FD allows a flexible grace period of 10-20 days to assess penalties during October (and subsequent months) due to payment processing delays at the end of September.
- There was inconsistent timing of the grace periods and for the billing of penalties since there were no official policies and procedures to govern these areas.
- FD delays processing the penalties due to the large volume of payments received by the Cash Receipts section and the lack of personnel available to process said payments in a timely manner. Also, the penalties were applied manually rather than automated in the billing system.
- There was a lack of follow-up by FD/OCC after expiration of the delinquency period. For example, upon exhaustion of the penalty period (January 31st), the FD did not forward delinquent business information to the OCC for follow-up and issuance of violation notices.

RECOMMENDATION 2.1: (FINANCE DEPARTMENT)

We recommend that the FD adopt an official policy regarding grace periods for late BTR renewal payments. In addition, we recommend that the policy include specific dates that are

applied consistently (e.g., October 15th, November 1st, December 1st, and January 1st each year) and are automated in the system (as opposed to manually applied).

- **FD Response:** The Finance Department will incorporate the policy regarding grace periods for late BTRs as part of the Policies and Procedures Manual for BTRs. The policy will incorporate the specific dates.
- **Implementation Date:** Once the Policies and Procedures Manual for BTRs is approved, the Finance Department will communicate and enforce the new policy. This should be in place for the September 30, 2015 renewals.

RECOMMENDATION 2.2: (FINANCE DEPARTMENT)

To ensure accuracy and consistency, we recommend that the penalties be billed automatically and consistently each month (e.g., November 1st) and include a notice for the customer to disregard additional fees if payment was already remitted to the City. Rather than delay the billing of penalties for the entire population of delinquent businesses, for any payments received on or before the billing dates but not yet posted by FD-Cash Receipts in the system, we recommend that the FD manually adjust the customers' accounts on a case-by-case basis to remove the additional penalties billed but not due.

- **FD Response:** The Finance Department agrees with the recommendation.
- **Implementation Date:** This will be implemented prior to the start of the next renewal cycle.

RECOMMENDATION 2.3: (FINANCE DEPARTMENT)

In order to improve collections of delinquent BTR renewals, we recommend that the FD run a report of all delinquent businesses after the final penalty period (January 31st), and provide the information to the OCC for appropriate follow-up and issuance of violation notices.

- **FD Response:** There is already a report in MiamiBiz that provides that information. OCC has access to run that report and currently uses it.
- **Implementation Date:** Completed.

FINDING 3: THE FINANCE DEPARTMENT DID NOT ADEQUATELY MONITOR THE BTR PROCESS

The FD is responsible for administering and overseeing all aspects of the BTR process including distributing and reviewing BTR applications for completeness and proper documentation/support, ensuring customers are assessed the appropriate BTR fees based on their business operations, approving BTR exemptions/discounts, processing BTR payments, issuing the BTRs, and coordinating with other City Departments involved in the BTR process including the OCC and NET Offices.

We made audit inquiries and performed various tests in order to evaluate the effectiveness of the internal control system relative to the assessment, collection, and monitoring of BTRs and to determine whether the FD is properly monitoring businesses operating in the City to ensure compliance with BTR requirements.

Based on our review, we noted the following:

- The FD-BTR Section does not create periodic reports to analyze performance standards and financial trends, and to measure the effectiveness and efficiency of the BTR operation. Information that may be tracked include numbers of BTRs issued, collections from City businesses, penalties assessed and collected, the cost of operations per license issued, etc.
- The FD obtained monthly reports from Miami-Dade County (County) listing businesses in the City that obtained County BTRs; however, the FD did not review the reports in order to identify businesses without a City BTR.
- Businesses identified as operating without first obtaining BTRs (e.g., customers identified by the FD-BTR as missing required documentation, such as a valid CU; and, businesses identified by Police, Fire, or outside customers) were not properly tracked by the FD nor forwarded to the OCC for follow-up. Currently, the FD-BTR Section forwards its daily sign-in sheets to OCC; however, the sheets include all persons who visited the FD-BTR Section for any reason and the FD-BTR Section does not indicate what action (if any) OCC should take for follow-up. As a result, the information is not being used by OCC to perform inspections.
- Businesses identified as operating without first obtaining BTRs were not billed the appropriate BTR penalties which are, according to the City Code, a 25% penalty of the amount due; and a penalty of up to \$250 for failure to pay the required BTR fee within 150 days of initial notification.
- FD has a website with BTR information as well as a handout to inform the public of BTR requirements; however, handouts were not readily available. Other methods could be explored to ensure the public is adequately informed of BTR requirements (e.g., handouts distributed at various locations throughout the City).

In addition, based on our review of 30 inactive BTRs (i.e. closed businesses) we noted the following deficiencies:

- For 14 inactive BTRs, there was no evidence of an inspection performed in order to verify that the business closed, nor was there evidence that a new business had been opened at the location. We noted that closed businesses were removed from the MiamiBiz system using correspondence received from owners and without further follow-up.

RECOMMENDATION 3.1: (FINANCE DEPARTMENT)

We recommend that the FD-BTR Section create periodic reports to analyze both performance and financial data and measure the effectiveness and efficiency of BTR operations.

- **FD Response:** The Finance Department will work with ITD to create summary reports to measure department defined benchmarks.
- **Implementation Date:** The Finance Department will meet to discuss with ITD during the second quarter of the fiscal year 2015. Ultimately, implementation will be dependent on the outcome of discussions with ITD.

RECOMMENDATION 3.2: (FINANCE DEPARTMENT)

We recommend that the FD review and reconcile reports from the County listing City businesses with County BTRs and maintain a log to track businesses operating without first

obtaining City BTRs. These businesses as well as any others identified by the City should then be forwarded to the OCC for follow-up compliance.

We also recommend that all appropriate penalties for operating a business without first obtaining a BTR, be assessed and collected as stipulated in the City Code, when applicable.

- **FD Response:** On a monthly basis the BTR supervisor will be required to reconcile the new business BTR report received monthly from the Miami-Dade County against existing BTRS issued by the City. The outcome of the reconciliation will be sent to OCC for follow-up and all penalties stipulated in the City Code will be assessed accordingly.
- **Implementation Date:** The Finance Department expects to implement during the second quarter of the FY 2015 fiscal year.

RECOMMENDATION 3.3: (FINANCE DEPARTMENT)

When correspondence is received from owners indicating that a business has closed, we recommend that the FD:

- create a log of all closures;
- confirm the business closure either by obtaining evidence that a new business has opened at the location or by informing the OCC to perform an inspection verifying the business closure; and,
- upon confirmation of closure, void the business in the system to ensure that a renewal billing is not issued.

We also recommend that the FD identify businesses that have not renewed their BTR licenses for more than one year and forward the list to the OCC to determine whether the businesses have closed and can be voided in the system. Staff will then be able to identify which businesses are non-compliant and can be appropriately handled, and those that are no longer in business. Results of the review should be documented.

Finally, we recommend that the draft BTR Policies and Procedures Manual be updated to include a section on business closures.

- **FD Response:** The Finance Department's procedure for closing a business is the same as the recommendation. More enforcement to make sure that procedure is being followed will be done by the Finance Department. There will be a section in the Policies and Procedures Manual for BTRs relating to business closures.
- **Implementation Date:** The Policies and Procedures Manual for BTRs should be completed by the end of Fiscal Year 2015.

RECOMMENDATION 3.4: (FINANCE DEPARTMENT)

Additional revenues and greater compliance could be realized by elevating the public's awareness of BTR requirements. In order to ensure business owners are adequately informed, we recommend that the FD develop a more comprehensive strategy to increase public awareness of the BTR requirements. This program could include displaying pamphlets/posters/handouts at various sites where they would be readily noticed by the public (e.g. public buildings/offices, auto tag agencies, and other public places as deemed appropriate), cross communication between City and County staff informing businesses of both

BTR requirements, announcements on the City's television station, improving information included on the City's website to be more informative and user friendly, and ensuring that pamphlets/handouts are readily available at the City's Administration building Security/Information desk as well as in the Finance, Building, and Zoning Departments.

- **FD Response:** The Finance Department will meet with the Department of Communications and ITD to assist in increasing public awareness. Also the Finance Department will look into the possibility of making written material available to the public.
- **Implementation Date:** The Finance Department will meet with the relevant departments during the second quarter of the FY 2015.

FINDING 4: BTR EXEMPTIONS WERE NOT PROPERLY DOCUMENTED OR APPROVED

In accordance with the City Code, the following types of customers that apply for a BTR may be exempt from paying BTR license fees:

1. Disabled persons physically incapable of manual labor.
2. Widows with minor dependents.
3. Persons 65 years of age or older, with not more than one employee or helper, and who use their own capital only, not in excess of \$1,000.
4. Disabled veterans of any war or their unmarried spouses.
 - a. The veteran is entitled to an exemption to the extent of \$50 on any license to engage in any business, profession or occupation in the City.
 - b. When any such person shall apply for a license for which the license tax shall exceed the sum of \$50, the remainder of such license tax in excess of \$50 shall be paid by him.

In addition to the categories of exemptions noted above, governmental agencies, entities, or employees; as well as charitable, religious, fraternal, youth, civic, service, or other such organizations are exempt from obtaining a BTR.

To apply for these BTR exemptions, customers must complete and notarize the "Application for Local Business Tax Exemption" (Exemption Application) and provide the required documentation. In order to continue receiving the exemptions, customers must complete the exemption form and provide the required supporting documentation each year during the renewal period.

To determine whether BTR fee exemptions were properly approved by authorized personnel and whether adequate documentation to qualify for the exemption exists, we tested 30 customers noted as receiving BTR fee exemptions, and observed the following deficiencies:

- The Exemption Application forms and support were comingled with other BTR records.
- Two (2) customers obtained the Disability/Senior Exemption; however, the Exemption Application form was not provided.
- For seven (7) customers, there was no evidence of supervisory approval.

Finally, the draft BTR Policies and Procedures Manual did not address BTR exemptions.

RECOMMENDATION 4.1: (FINANCE DEPARTMENT)

We recommend that all Exemption Applications and supporting documents be maintained separately, by year, from other BTR records (e.g., applications, closures, address changes, etc.).

- **FD Response:** The Finance Department has already started changing the process for filing the supporting documents to the recommended practice.
- **Implementation Date:** The end of the second quarter of FY2015.

RECOMMENDATION 4.2: (FINANCE DEPARTMENT)

In order to mitigate the risk that businesses are improperly receiving exemptions of BTR fees, we recommend that each Exemption Application form be reviewed and approved by the BTR/Customer Service Supervisor to ensure that appropriate documentation exists to support the exemption. All approvals should be noted on the application and in the MiamiBiz system to support the fee waiver.

- **FD Response:** The Finance Department BTR supervisor has reviewed and approved applications in the past. However, prospectively, the approvals will be noted on the application and MiamiBiz. In addition, previous FY2015 exemptions that have been reviewed, approved, and processed will be noted on their application.
- **Implementation Date:** The end of the second quarter of FY2015.

RECOMMENDATION 4.3: (FINANCE DEPARTMENT)

We recommend that the draft BTR Policies and Procedures Manual be updated to include a section on BTR exemption requirements, documentation, review, supervisory approval, and systems (MiamiBiz/Oracle) input guidelines.

- **FD Response:** The Finance Department agrees with the recommendation and will memorialize the procedures in the Policies and Procedures Manual for BTRs.
- **Implementation Date:** This should be completed by the end of Fiscal Year 2015, when the Policies and Procedures Manual for BTRs is approved.

FINDING 5: BTR FEE DISCOUNTS AVAILABLE IN MIAMIBIZ EXCEEDED THOSE ALLOWED BY CITY CODE AND WERE NOT CAPTURED TO PROVIDE AN AUDIT TRAIL

The City Code provides the following BTR fee discounts: a one-half (50%) fee reduction for licenses obtained between April 1st and September 30th; a \$50 fee reduction for disabled veterans of any war and the surviving un-remarried spouses of deceased disabled veterans; and the City Code exempts certain disabled persons, the aged, and widows with minor dependents from all BTR fees.

However, we noted that the MiamiBiz system allows the following BTR fee discount categories not prescribed by the City Code, and does not restrict all discount amounts:

- Misc Discount
- Red Line Memo
- BTR Percent-Reduction
- BTR Fee-Reduction

The “Misc Discount”, “Red Line Memo”, “BTR Percent-Reduction” and “BTR Fee-Reduction” do not correspond to the City Code, and the “Misc Discounts” category allows a “BTR Fee-Reduction” of any amount.

It was also noted that when BTR rate discounts are applied in MiamiBiz, there is no audit trail to capture the discount category, amount, or operator who completed the rate adjustment. Further, the Oracle Financial BTR invoices created from MiamiBiz do not contain any detailed information showing that a BTR fee was discounted or the amount or reason for the discount. On the Oracle invoice, the BTR is simply shown at the adjusted rate.

Because MiamiBiz was not in use for the majority of the audit period, there were not any discounted BTRs produced by the system to test. However, with MiamiBiz system now in full use, BTR fees could be discounted for reasons and amounts not permitted by the City Code, and the discount could be unauthorized, unapproved, and undetected, resulting in financial losses to the City.

The MiamiBiz system should allow only BTR rate adjustments and amounts specified by the City Code, and the MiamiBiz audit trail should capture the date, type, and amount of any rate adjustments, as well as the operator who made the rate adjustment.

RECOMMENDATION 5: (FINANCE AND INFORMATION TECHNOLOGY DEPARTMENTS)

We recommend that the FD request the ITD to:

- Change MiamiBiz so that only the fee discount categories specified by the City Code are available in MiamiBiz; and that the discounts and dollar amounts are reflected on Oracle generated customer invoices.
- Modify the audit trail functionality in MiamiBiz to automatically and securely capture the date, type, amount, and operator for each rate adjustment.

The ITD should modify MiamiBiz to reflect the new requirements and deploy the changes to the production version of MiamiBiz via a formalized change management process.

- **FD Response:** The Finance Department will make the formal request to ITD to clarify the fee discount categories to mirror the City Code.
- **Implementation Date:** The Finance Department will meet with ITD to discuss the matter, feasibility and implementation during the second quarter of the 2015 fiscal year.
- **ITD Response:** All fees (for any systems) are not regulated, determined, or established by ITD. When fees are either established as new or modified, those fees and schedules are provided to ITD by one of the business departments. ITD either creates new table entries to accommodate new fees or makes necessary modifications to the current fees in the proper application and underlying structures, databases, or relevant locations in a Development location. Once completed and tested internally to satisfaction, ITD contacts the business department and conducts testing with the business department to make sure that the fees are properly calculated, figured, or assessed when and where

necessary. Upon conclusion of the testing and approval by the business unit and sign off only then is the new code or modified system moved to the production environment.

- **Implementation Date:** Upon receipt of modification requests from the Finance Department.

FINDING 6: INFORMATION TECHNOLOGY DEPARTMENT DID NOT ADEQUATELY MONITOR THE DEVELOPMENT AND PERFORMANCE OF THE MIAMIBIZ SYSTEM

We noted that there were no City ITD employees directly monitoring the work performed by temporary contractors hired to develop the MiamiBiz system. During audit fieldwork, three key MiamiBiz contractors left the City: the project manager, business analyst, and a lead programmer. There were no City employees able and available to take over these roles. Additionally, MiamiBiz system administration policies and procedures documents establishing the responsibilities and authorities over the MiamiBiz system had not been developed.

As a result, the MiamiBiz system may not meet the ongoing processing requirements of the end-user business units. Without formalized system administration policies and procedures, management directives may not be carried out.

RECOMMENDATION 6.1: (INFORMATION TECHNOLOGY DEPARTMENT)

We recommend that the ITD develop the capability to support, maintain, and update the MiamiBiz system throughout its useful life.

- **ITD Response:** ITD stopped the practice of having consultants manage consultants and returned the practice of all consultants' reporting to a FTE employee to restore the proper checks and balances within the department.
- **Implementation Date:** November 2013.

RECOMMENDATION 6.2: (INFORMATION TECHNOLOGY DEPARTMENT)

We recommend that the ITD develop system administration policies and procedures for the MiamiBiz system with input from end-user departments, including OCC, FD, and Planning and Zoning Departments.

- **ITD Response:** ITD is in the process of interviewing and working with the business units (OCC, FD, and P&Z) to establish process and procedures for the MiamiBiz System. These process and procedure updates will include appropriate "roles" that will be assigned specific responsibilities and capabilities. Each Department will dictate the roles for their respective users based on the functionality of the system their respective department functions under.
- **Implementation Date:** This will be a living document and be reviewed and updated with each request for modification or additional function added. The initial document should be prepared by the end of the second quarter of 2015.

FINDING 7: THE CITY OF MIAMI AND MIAMI-DADE COUNTY UTILIZE INCONSISTENT NAMING CONVENTIONS FOR BUSINESS TAX RECEIPTS (BTRs) RESULTING IN RECONCILIATION DIFFICULTIES

The City and County both issue BTRs. Since they both have access to the County's GIS address data, their respective BTR processing should incorporate consistent nomenclature (i.e., "naming") conventions for business names and addresses. Such naming conventions would enable consistent reconciliations of this information between the County and the City. For instance, the County issued BTRs in the business's fictitious name, while the City would issue a BTR using an entity's corporate name (e.g., "ABC Diner" versus "ABC Restaurant Corp."). Additional naming convention mismatches included the use of professional designations following names (e.g., CPA, MD, Esq., etc.) and first/last versus last/first formats and use of inconsistent address abbreviations and non-existent addresses.

As a result of these inconsistencies:

- A comparison and reconciliation of County and City BTR holders could not be readily performed. Therefore, the City cannot readily verify that all businesses holding a County BTR have also obtained a City BTR when required; and,
- There is a risk that the City is foregoing revenue and its citizens are being exposed to unlicensed businesses operating in the City without detection.

RECOMMENDATION 7: (FINANCE DEPARTMENT)

We recommend that the FD hold discussions with Miami-Dade County personnel to develop a plan to provide consistent naming conventions for BTRs using the County's GIS database for naming standards and address validation. When this issue is resolved, the City should perform periodic reconciliations between their BTR database and the County's.

- **FD Response:** The Finance Department concurs with the recommendation and will attempt to meet with Miami Dade County during the 2015 fiscal year.
- **Implementation Date:** The implementation will be based upon the discussions with Miami-Dade County and the City's ITD.